Gulf Marine Services PLC - GMS Financial Results - 2019
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1 May 2020

Gulf Marine Services PLC

('Gulf Marine Services', 'GMS', 'the Company' or 'the Group')

2019 Financial Results

Financial Overview

	2019	2018
	US$m	US$m
Revenue	108.7	123.3
Gross (loss)/profit	(25.0)	47.0
Adjusted gross profit[1]	34.2	47.0
Adjusted EBITDA[1]	51.4	58.0
Asset Impairment	(59.1)	-
Loss for the year	(85.5)	(5.1)
Adjusted loss for the year[1]	(20.0)	(5.1)
Net cash flow before debt service[3]	41.9	5.9

2019 Financial Highlights

- Adjusted EBITDA at US$ 51.4 million was ahead of the August Guidance of US$ 45-48 million[2]. While 11% lower than in 2018, this reflects lower revenues, partially offset by the impact of cost savings.
- Net cash flow before debt service[3] rose to US$ 41.9 million (US$ 2018: US$ 5.9 million) due to disciplined management of capex and working capital, in the second half of the year.
- Significant progress was made in reducing costs. The 2019 cost saving programme delivered US$ 13.0 million on an annualised basis during the period, significantly exceeding the original target of $6m set in March 2019. 2019 results reflect a saving of US$ 5.6 million, split between opex, capex and administrative expenses. The remaining savings will flow into the 2020 results.
- Revenue fell by 12% to US$ 108.7 million (2018: US$ 123.3 million) reflecting lower rates and shifts in the utilisation mix.
- Loss for the year before adjustment was US$ 85.5 million, mainly arising from the impact of impairment charges totalling US$ 59.1 million, on two of our E-Class vessels and two smaller charges on the Naashi and a S-Class cantilever, and US$ 6.3 million of restructuring costs.
- Average day rates decreased by 14% across all classes of vessel, as 2017/18 legacy contracts expired. Market rates have been broadly flat over the last twelve months.
- The Group is considered to be a Going Concern, but subject to a material uncertainty relating to the need to complete documentation relating to the restructuring of facilities announced on 31 March 2020 and the management of a tight short-term liquidity position. This is explained in further detail below.

2019 Operational Highlights

- HSE Performance was stable with Lost Time Injury Rate at 0.19 (2018: 0) at the end of 2019. Total recordable injury rate was 0.29 (2018: 0).

- Operational downtime remained low at 2018 equivalent levels.
- Average fleet utilisation stable at 69% (2018: 69%) with underlying changes in the mix by vessel class. Average E-Class utilisation reduced, reflecting soft market conditions in North West Europe. S-Class and K-Class utilisation improved, reflecting strengthening demand in Middle East and North Africa (MENA).
- Eleven new contract awards were awarded, with a combined charter period of 13 years (including options), rising to 15 years including contract extensions.

2019 Governance Highlights

- Board and Senior Management overhaul
    - New Chairman, Tim Summers (appointed April)
    - Two new Independent Non-Executive Directors (appointed June)
    - New Non-Executive Director (appointed March)
- New Chief Financial Officer (CFO), Steve Kersley (appointed June)
- Chief Executive Officer (CEO) replaced with Executive Chairman, Tim Summers (August)
- Remuneration Policy revised to align with management performance
- Requisitioned General Meeting held on 18 March 2019 at the instigation of a shareholder. Resolutions to appoint their nominees and remove certain existing directors were rejected by substantial majorities of shareholders

2020 Highlights and Outlook

- The cost savings programme has delivered further gains during 2020 and is currently running ahead of plan.
- Secured backlog is US$240 million, as at 31 March 2020, an increase of $20 million since March 2019.
- Nine of the total fleet of 13 vessels already fully contracted for 2020. Utilisation for 2020 currently stands at 76% (with 100% of our available capacity deployed at work for clients at 30 April 2020). Contracted utilisation for 2021 stands at 49%.
- Two E-Class vessels relocated from Europe to Middle East in Q1 2020, arriving safely and on schedule in February.
- Non-binding term sheet agreed with lender syndicate in March 2020 to restructure the existing debt facilities, including access to new working capital and bonding facilities, underpinning liquidity. The term sheet also covers the restructuring of repayment profiles, term, and covenant levels.
- A waiver, for deferral of the March 2020 term loan amortisation payments and December 2019 Financial Covenant tests, has also been received, each until 30 June 2020. The Group's working capital facilities have also been rolled over until 30 June 2020.
- Full documentation is expected to be completed such that new facilities are available to the Group by 30 June 2020.

COVID 19

- The combination of COVID-19 and low oil prices brings significant operational and financial risks that are being experienced by all businesses across the energy sector. It is not possible to quantify the impact in the current constantly changing environment, however the high level of contracted utilisation (76% for 2020) and supply chain flexibility, provides some risk mitigation to GMS.
- Downside scenarios are regularly assessed, and further cost saving measures are in place to ensure that the business is in a position to operate successfully while maintaining adequate liquidity. Current year-to-date[4] Adjusted EBITDA for Q1 2020 is slightly better than the Company's 2020 Business Plan.
- The Group is closely monitoring potential counter-party risks and resultant liquidity and pricing pressures, with particular focus on the impact of the current situation on suppliers and customers.

Material Uncertainty Statement

- Should full loan documentation not be agreed with Lenders by 30 June 2020, they would retain the right to call default on the loans. This would allow a majority of banks, representing at least 66.67% of total commitments, to exercise their rights to demand immediate repayment and/or enforce security granted by the Company as part of this facility at the asset level and/or by exercising the share pledge to take control of the Group.
- The Group's short- term liquidity position is currently tight. This will continue to require careful management until the loan documentation is completed and access is obtained to additional working capital facilities.
- The need to complete the refinancing of the Group's banking facilities by the end of June and the Group's tight short-term liquidity position indicate a material uncertainty that may cast significant doubt as to the Group's ability to continue as a going concern. Notwithstanding this material uncertainty, the Directors believe that there is good reason to believe that final loan documentation will be completed in a timely fashion and that liquidity can be managed until such time as the refinancing of the Group's banking facilities completes. Accordingly, the going concern basis of accounting has been adopted in preparing the 2019 consolidated financial statements.

Tim Summers, Executive Chairman, GMS said:

"2019 was a difficult year for GMS, and we took decisive action on all fronts. Governance processes were reformed, the Board reshaped, and a new senior management team put in place. We made material reductions in our cost base, while at the same time delivering significant new contract wins. We ended 2019 with EBITDA levels slightly ahead of our guidance.

After a year's negotiations, in principle agreement has been reached with lenders on the key terms of restructuring our bank debt which will give GMS renewed access to liquidity and a firm financial platform to move the business forward through 2020 and beyond.

Given the global conditions, and the present commodity price environment, it is hard to comment credibly on market outlook and evolution. However, notwithstanding current difficulties, major National Oil Companies are continuing to pursue multiple long-term tender offerings. Having relocated two E-Class vessels, from North West Europe to MENA, now already deployed for clients, we are well placed to participate in these opportunities. Contracted utilisation for 2020, at 76%, is already in excess of that delivered in in 2019.

Market conditions remain challenging, but we are aware of the risks and are actively managing them. Our financial performance to the end of March 2020 is slightly better than our 2020 Business Plan.

I would like to thank the dedicated employees at GMS for their teamwork and achievements in difficult circumstances, particularly over recent months. Throughout the Company, our first concern and priority is for the health and wellbeing of our colleagues."

Analyst presentation:

A presentation to analysts will be held today, 1 May 2020, at 09.00 UK time; for details to attend analysts should please contact Nabhan Malik at Brunswick: nmalik@brunswickgroup.com.

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

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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 Qatar. 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

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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.

Chairman's Review

Repositioning the business for the future

2019 was a year of substantial change at GMS. Governance has been fundamentally overhauled at both Board and Senior Management level. Significant progress has been made in driving cost savings while at the same time improving vessel utilisation and backlog. Agreement has been reached in principle with our lenders to restructure our banking facilities to give the business a stable platform, on which we can complete our business turnaround and recapitalise the business. During this time, we have continued to deliver safe and reliable operations for our customers.

The advent of COVID-19 has brought fresh challenges, in conjunction with low oil prices. Those risks to the business are being actively managed with formal processes in place at both Board and Senior Management levels. The progress made over the last twelve months, has placed GMS in a much stronger position to meet these challenges.

Governance

On 18 March 2019, the Group held a Requisitioned General Meeting at the request of a shareholder at which the resolutions to appoint their nominees and remove certain existing directors were rejected by substantial majorities of shareholders. This meeting took place in the context of the disappointing financial results of the Company. Following feedback from shareholders more generally and from shareholder advisory bodies, substantial changes were made to Governance and Management.

The entire Board has been replaced over the last 18 months. I joined as Chairman of the Board in April 2019, shortly after the appointment of Mo Bississo as Non-Executive Director in March. David Blewden and Mike Turner then joined the Board in June, along with Steve Kersley, as Chief Financial Officer.

In August it was announced that the Chief Executive Officer would be leaving GMS. Until his replacement has been appointed, I have taken on his executive responsibilities in addition to my role as Chairman. All of the prior Senior Management team have now been replaced, and internal management processes and financial forecasting have been substantially overhauled.

The new Board are fully engaged with the business. Remuneration policies have been changed fundamentally. Annual bonuses are now fully at risk, 100% performance-based and are linked to a Business Scorecard which is driven solely by financial and operational metrics tied to the delivery of shareholder value. Its metrics apply in the same way for all eligible members of staff. This alignment underpins the drive towards a more performance-based culture focused on financial and commercial success.

The Long-Term Incentive Plans have similarly been restructured to tie share-based compensation to our Total Shareholder Return in comparison to oilfield services peers and the wider stock market.

Group performance

Adjusted EBITDA at US$ 51.4 million was 11% below that achieved in the previous year. This was mainly driven by a 14% reduction in average charter rates, compared to 2018 as legacy contracts have expired, to be replaced by new contracts negotiated in current market conditions.

Average utilisation, at 69%, was the same as in 2018. However, there has been a reduction in utilisation of our most profitable E-Class vessels, offset by increases in utilisation of the remainder of the fleet. This put further pressure on overall margins and therefore EBITDA.

While the Adjusted EBITDA outturn for the year has fallen since 2018, it exceeds the US$ 45-48 million guidance offered in August 2019, at the time of leadership change[5]. This reflects the impact of additional cost savings delivered in the second half of the year. The cost saving programme is running ahead of plan and is expected to deliver further savings to the Group's bottom line in 2020. This has been achieved by the delivery of further reductions in headcount, with a focus on eliminating senior management positions, the closure of offices and redundant facilities, and the reduction in costs of the supply chain through competitive tendering and contract renegotiation.

The position on backlog is also improving. GMS secured 11 new contracts in 2019 and these have added a total expected charter period of 13 years (including options) to the backlog. Contracted utilisation for 2020 is already in excess of levels actually delivered in 2019. Contract wins through the autumn have rebuilt confidence in the ability to deliver, in what remains a very a competitive environment.

Capital structure and liquidity

We have agreed a non-binding term sheet with the Group's lenders to restructure our existing debt facilities. Once implemented, it will re-establish access to our working capital facilities to support both short term cash flow and bonding requirements. It will also establish a loan repayment and financial covenant profile that is better suited to the current market environment. We are in the process of completing the detailed loan documentation which we expect to have completed by the end of June. Over that period, we have received waivers for both our covenant and payment obligations under the existing agreements.

Whilst the absence of binding loan agreements and the Group's tight short-term liquidity position represent a material uncertainty, that has been highlighted in our Financial Statements[6], the Directors believe that, based on the progress made to date, there is good reason to believe that final loan documentation will be completed in a timely fashion; and that the Group's working capital and liquidity position can be managed effectively during that period.

Once this is completed, it will give the business a solid financial platform, which will allow us to focus on the business turnaround and reposition the business sustainably. The next phase is to complete the legal documentation over the coming months and prepare the Company to be ready for an equity injection as and when market conditions allow.

Commercial and Operations

We remain committed to providing all personnel and our customers with a high quality, safe working environment at all times and continue to maintain a focus on safe, reliable operations. The Lost Time Injury rate increased to 0.19, from zero in the previous year.

In 2019 there were no environmental incidents across our operations. We are taking measures to reduce our emissions going forward as part of a broader goal to align with the Paris Agreement objectives, by, for example, changing our refrigerant usage across all of our vessels and reducing our office and facilities footprint. All our vessels are already configured to run on low sulphur marine diesel.

Demand in Europe, where three of our Large Class Vessels were situated, has been disappointing. This has been reflected in utilisation levels, which, for our E Class vessels fell to 51% (2018: 73%). This reflects the phasing of renewables work, and a pause in oil and gas activity, as upstream customers reassessed their development plans.

By comparison, demand in the Middle East has remained firm. For our S Class and K Class vessels, utilisation has therefore improved as outlined below, balancing the decline in North West Europe, such that overall utilisation has remained flat.

These disparities in market conditions underpinned our decision to relocate two of our E-Class vessels to the MENA region at the end of December. Both vessels arrived successfully in February. One is in the field already working on short-term operations, and the other is mobilising in the next few weeks.

COVID-19 and Outlook

Given the developments in the world at present, it is hard to comment credibly on market outlook and developments. The Board reviews COVID-19 actions, impacts and forward plans as a standing Board agenda item, and Senior Management have daily (virtual) meetings to assess risks and adapt to the changing situation.

COVID-19 has been recorded on two separate GMS vessels, one of which is on a short term contract. Both vessels are currently quarantined, as we await final test results. They remain on hire and we expect any financial impact to be small. There are likely to be other cases in the future, and procedures are in place to handle them. There have been no material impacts on operations, although some government agencies and suppliers are operating more slowly than normal which is to be expected.

Preventive measures have been put in place to respond to the challenge of COVID-19, and its impact on oil prices. All travel has been stopped. Crew changes have been restricted offshore, and onshore staff are working virtually. Further reductions have been made in the organisation size and remaining onshore staff are also working shorter hours on reduced salaries (75% of normal). Directors have also volunteered a 25% reduction in fees. I have taken a further 15% cut for a total of a 40% reduction in base pay. Cash bonus payments due to be paid in Q2 2020 for 2019 performance have been deferred. Critical supplier availability has been analysed to minimise the risk of disruption to operations.

The Group is also closely monitoring potential counter-party risks and resultant liquidity and pricing pressures, with particular focus on the impact of the current situation on suppliers and customers.

Notwithstanding the current environment, major National Oil Companies are continuing to pursue multiple long-term tender offerings. Having safely and successfully relocated two E-Class vessels, from North West Europe to MENA, we are well placed to participate in these opportunities. Contracted utilisation for 2020, at 76%, is already in excess of that delivered in the previous year. Financial performance to the end of March 2020 remains slightly better than the 2020 Business Plan. 80% of the 2020 Business Plan revenues are covered by firm contracts, and this rises to 83% if contracted options are exercised.

Strong preventive measures are in place to manage the operational and financial impact of COVID-19 (and its impact oil prices). The Company is acting to manage financial risks and preserve liquidity. The repositioning of the business to be resilient through difficult market conditions continues.

Conclusion

Our business has been through a challenging twelve months, but we are now beginning to see the benefits of restructuring: driving cost savings, improving operational efficiency and securing additional business. The provisional agreement reached with our lenders would, upon execution of binding documentation, provide much needed stability to our organisation as we move forward.

2020 has brought additional and profound challenges, with the global impact of COVID-19 and significant oil price reduction. Despite the tight short-term liquidity position, GMS is now in a much stronger position to face these uncertainties.

On behalf of the Board, I would like to thank all our staff for a year of hard work and for their continued commitment to GMS during this challenging period. I would also like to thank our stakeholders, including customers, suppliers, lenders and shareholders for their support during the past year.

Tim Summers
Executive Chairman

Financial Review

	2019	2018
	US$m	US$m
Revenue	108.7	123.3
Gross (loss)/profit	(25.0)	47.0
Adjusted gross profit[7]	34.2	47.0
Adjusted EBITDA[1]	51.4	58.0
Asset Impairment	(59.1)	-
Loss for the year	(85.5)	(5.1)
Adjusted net loss[1]	(20.0)	(5.1)
Net cash flow before debt service[2]	41.9	5.9

Introduction

Adjusted EBITDA, at US$ 51.4 million, was lower by US$ 6.6 million (11%) compared to the previous year. This was driven by lower revenues driven, in turn, by a combination of rates and utilisation mix, offset by reduced costs. It does, however, represent a significant improvement on forward guidance offered at the time of the half year results (US$ 45 - 48 million), due to further cost reduction initiatives, executed in the second half of the year.

Revenue reduced by 12%, mainly arising from the E-Class (US$ 16.1 million decrease) offset by an increase in revenue earned by the K-Class (US$ 1.5 million increase). Although average utilisation across the fleet remained stable in 2019 at 69% there has been a significant "mix effect" by vessel class. Utilisation of E-Class vessels fell to 51% compared to 73% in 2018. This reflects the challenging market conditions faced in the oil and gas sector in North West Europe as well as the phasing of renewable energy projects. Three of our four E-Class vessels were located in North West Europe and, of those, two were off hire for much of the latter part of 2019.

Against that, market demand in the Middle East has been relatively stable. There has therefore been an increase in utilisation across S-Class vessels to 97% (2018: 75%) and K-Class to 68% (2018: 64%), with five of the vessels now mobilised for long term[8] contracts.

Overall average day rates deteriorated in 2019 across each class of vessel. E-Class has reduced by 11%, S-Class by 18% and K-Class by 4%. In the Middle East, this results from three legacy contracts which were secured before the market downturn. In North West Europe, there was only a modest fall (less than 5%) reflecting the seasonal mix of work obtained on one of our vessels. Market rates themselves have been largely flat over the last 12-18 months.

In March 2019 the Group introduced a cost saving programme as part of its repositioning plan, with an original savings target of US$ 6.0 million in annualised savings. The programme has so far delivered annualised savings of over US$ 13.0 million. Of this, US$ 5.6 million has flowed into 2019 financial results: US$ 2.7 million into operating expenses, US$ 0.5 million into capital expenditures and US$ 2.4 million into general and administrative expenses. The remaining savings are expected to flow through into 2020 EBITDA.

Operating costs decreased by 10% to US$ 43.3 million (2018: US$ 48.0 million). This has been driven by the implementation of the cost saving programme, and, in particular, the retendering or renegotiation of supplier contracts, the closure of redundant facilities and offices. General and administrative expenses, excluding depreciation and amortisation, decreased by 18% to US$ 14.1 million (2018: US$ 17.3 million). This has been through the reduction in onshore headcount to 80 at the end of the year, compared to 111 employees in the previous year.

The loss for the year was US$ 85.5 million (2018: US$ 5.1 million) with the increase being primarily the non-cash impairment charge of US$ 59.1 million, from two of our E-Class vessels and two smaller charges on non-core assets, the Naashi and S-Class cantilever, the charge of US$ 6.3 million relating to restructuring costs and the lower EBITDA described above and depreciation described below.

Total capital expenditure for 2019 reduced to US$ 10.2 million (2018: US$ 23.2 million) as the business focused on essential capital expenditure only, whilst ensuring that all vessels remained operationally effective and met class requirements.

Total depreciation and amortisation increased to US$ 35.0 million (2018: US$ 29.5 million) primarily as a result of a full year's depreciation on Evolution which was introduced to the fleet in 2018 and also a full year of depreciation relating to modifications on Endeavour.

Agreement has been reached in principle with lenders to restructure the Group's debt facilities. Negotiations have commenced on detailed loan documentation which are expected to be completed by the end of June. Over that period, waivers have been received for both covenant and payment obligations under the existing agreements. Once complete, the new structure will re-establish access to our working capital facilities to support both short term cash flow and bonding requirements. It will also establish a loan repayment and financial covenant profile that is better suited to the current environment.

As an incentive to raise equity, if by 31 December 2020 the Group has not successfully concluded an equity capital raise of at least US$75m, the term sheet provides for the issuance of warrants, subject to vesting over a number of years, which could result in the Banks owning a minority interest in the outstanding shares of GMS, as well as the incurrence of PIK interest from 1 January 2021.

Should final loan documentation not be put in place, Lenders would retain the right to call default on the loans, as at 30 June 2020, when the next set of

amortisation payments fall due. This would allow a majority of banks, representing at least 66.67% of total commitments, to exercise their rights to demand immediate repayment and or enforce its rights over the security granted by the Company as part of this facility either through enforcing security over assets and/or exercising the share pledge to take control of the business.

The Group's short-term liquidity position is currently tight. This will continue to require careful management until such time as the Group's banking facilities are restructured (currently anticipated in the scenario described above to be no later than 30 June 2020), and further access is obtained to additional working capital and bonding facilities.

The need to complete binding loan documentation in respect of the Group's restructured banking facilities and the Group's tight short-term liquidity position indicate a material uncertainty that may cast significant doubt as to the Group's ability to continue as a going concern. Notwithstanding this material uncertainty, the Directors believe that based on the progress made to date in this regard, there is good reason to believe that final loan documentation will be completed in a timely fashion; and that the Group's working capital and liquidity position can be managed effectively. They have therefore adopted the going concern basis of accounting in preparing the consolidated financial statements.

The impact of COVID-19 and the low oil price environment has been fully considered in making this judgement. While circumstances are continually evolving, the risks are mitigated by the high level of committed contracts underpinning current forecasts; preventive measures taken by management to mitigate operational risks; continued evidence of demand in core Middle Eastern markets; further cost cutting measures taken to improve financial resilience in the current environment.

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The following sections discuss the Group's adjusted results as the Directors consider that they provide a useful indicator of the Group's underlying performance. The adjusting items are discussed below in this review and a reconciliation between the adjusted and statutory results is contained in note 31 of the consolidated financial statements.

Revenue and segmental profit

The table below shows the contribution to revenue and segment adjusted gross profit or loss (being gross profit excluding depreciation, amortisation and impairment) made by each vessel class during the year.

Vessel Class	Revenue (US$'000)		Adjusted gross profit/(loss)* (US$'000)	
	2019	2018	2019	2018
E-Class vessels	35,984	52,077	2,737	17,769
S-Class vessels	35,422	35,407	17,462	17,344
K-Class vessels	37,313	35,847	14,449	12,657
Other vessels	2	4	(497)	(752)
Total	108,721	123,335	34,151	47,018

*See Glossary

There has been a significant drop in the average utilisation of E-Class vessels. This reflects market conditions in the North Sea. The major reductions were attributable to Evolution and Endurance, with the vessels recording utilisation levels of 22% (2018: 93%) and 54% (2018: 92%) respectively. Enterprise, which is the only vessel located in the MENA region, experienced an increase in utilisation of 12%. Average E-Class day rates reduced by 11%; in North West Europe there was a 4% reduction reflecting the seasonal mix of work obtained on one of our vessels.

There has been a significant increase in average S-Class utilisation at 97% (2018: 75%) with two of the three vessels now on long-term charter. This has, however, been offset by a reduction in rates, as legacy contracts negotiated before the market downturn expired during 2018 to be replaced by contracts that reflect current market conditions. Rates have been broadly flat for the past 12-18 months.

Utilisation for K-Class vessels has marginally increased from 64% in 2018 to 68%, and rates have stayed relatively stable, thus leading to marginal increases in both revenue and gross profit, for these vessels.

During the year, the share of total Group revenue derived from customers located in the MENA region increased to 75% (2018: 66%) with National Oil Companies (NOCs) being the principal client (over 50% of total 2019 revenue generated from NOCs). This trend is expected to continue, with the relocation of two vessels from North West Europe to MENA completing in early 2020.

There has been a switch in the revenue mix within the MENA region with the UAE now being responsible for 33% (2018: 14%) of total revenue, slightly more than KSA (30%), which was the biggest revenue contributor in 2018 at 44%.

Revenue in North West Europe has declined, and the region contributed 25% to total revenue compared to 34% in 2018.

Cost of sales, general and administrative expenses, restructuring costs

Cost of sales excluding depreciation and amortisation decreased by 10% to US$ 43.3 million (2018: US$ 48.0 million). The decrease of US$ 4.7 million is mainly attributable to the cost savings programme implemented during the year.

General & administrative costs are 18% lower in the year at US$ 14.1 million (2018: US$ 17.3 million) due to the implementation of the cost savings programme, and organisational simplification.

As at December 2019 the Group had incurred US$ 6.3 million of restructuring costs that were not directly related to our principal business activities and therefore have been excluded from Adjusted EBITDA. They comprise redundancy costs, professional and consultancy fees and expenses relating to the closure of office and port facilities.

Depreciation and amortisation included in cost of sales increased to US$ 31.3 million (2018: US$ 28.3 million) with 2019 including the full year effect of Evolution which was introduced into the fleet during 2018 and additional depreciation on modifications completed on Endeavour in 2018 for a long-term contract.

EBITDA[9] and Adjusted EBITDA

EBITDA and EBITDA margin for the year were US$ 14.1 million and 12.9% respectively (2018: EBITDA US$ 58.0 million/EBITDA margin 47%).

Along with the reduction in revenue, operating costs and general and administrative expenses, there was an impairment charge in 2019 of US$ 59.1 million. The Group has recognised an impairment charge of US$ 1.7 million on the sale of Naashi (37 years old) to reduce its estimated recoverable amount and an amount of US$ 2.8 million on vessels under construction.

In addition, as a result of prolonged deteriorating market conditions in North West Europe two E-Class vessels were impaired by US$ 54.6 million in total. This reflected the higher cost of these vessels relative to the rest of the fleet. The remaining vessels in the fleet have reasonable impairment headroom.

Adjusted EBITDA was US$ 51.4 million (2018: US$ 58.0 million) with the Adjusted EBITDA margin remaining steady at 47% (2018: 47%). Restructuring costs of US$ 6.3 million were mainly due to changes in the organisational structure during the period.

Finance costs and foreign exchange

Finance costs increased slightly in 2019 to US$ 32.1 million (2018: US$ 31.3 million). Total debt was slightly lower, reflecting amortisation of term debt, but was more than offset by slightly higher interest rates.

During the period there was a net foreign exchange loss of US$ 1.2 million (2018: US$ 0.3 million gain). The loss mainly arises from the movement in exchanges rates of the Pound Sterling and Euro against the US Dollar, with both experiencing declines in 2019 due to Brexit.

Taxation

Net tax charge for the year was US$ 3.7 million (2018: US$ 2.7 million). This reflects a US$ 1.8 million deferred tax charge with the Group no longer recognising a deferred tax asset due to insufficient future taxable profits expected to be generated in the UK. An unrecognised deferred tax asset of US$ 2.4 million based on cumulative losses of US$ 12.3 million is disclosed in the consolidated financial statements.

Earnings

The net loss for the year was higher than 2018 at US$ 85.5 million (2018: US$ 5.1 million) mainly reflecting lower EBITDA, an increased depreciation charge (including a US$ 59.1 million impairment) and an adjustment for restructuring costs of US$ 6.3 million. After adjusting for exceptional items (impairment and restructuring costs) the Group incurred an adjusted net loss of US$ 20.0 million (2018: adjusted net lost US$ 5.1 million).

Capital expenditure

The Group's capital expenditure during the year was US$ 10.2 million (2018: US$ 23.2 million). The reduction in spending reflects a combination of disciplined capital expenditure control, coupled with higher than usual client driven capital expenditures in the previous year.

Cash flow and Liquidity

Despite lower EBITDA levels and significant restructuring costs, during the year the business has delivered increased operating cash flows, which, at US$ 51.3 million in 2019, are substantially higher than that generated in the previous year (2018: US$ 28.9 million). This has been driven by lower costs as well as rigorous working capital management. Renewed focus during the second half of 2019 on cash collections and effective management of supplier payments has resulted in a working capital inflow of US$ 11.2 million in 2019 (compared to an outflow of US$ 24.7 million in the previous year).

The net cash outflow from investing activities decreased in 2019 to US$ 9.4 million (2018: net outflow of US$ 23.0 million), primarily as a result of lower capital expenditure. This has driven a significant increase in net cash flow available to service debt[10] which at US$ 41.9 million is significantly higher than in the previous year (2018: US$ 5.9 million). This has enabled the business to service term debt and amortisation, with only minimal draw on its working capital facilities.

Liquidity remains tight, reflecting the decline in run rate Adjusted EBITDA in the second half of 2019, the incremental costs of vessel relocation, and legal/advisory costs of negotiating the debt restructuring. As underlying run rate EBITDA builds over the next six months, liquidity is expected to improve. To navigate the short-term challenges, the following measures and mitigants are in place:

- Cash forecasts are reviewed on a weekly basis, at both an operational level and at senior management meetings.
- Liquidity is formally reviewed on a routine basis as a standing item by the Board.
- Over the last nine months, management have been successful in optimising terms with trade debtors and creditors using the strength of its business relationships.
- The Group has a high level of committed contracts for its vessels that underpins Management current revenue forecasts for the next twelve months. These contracts provide the Group with relatively high EBITDA margins from a core base of customers that typically have a strong credit profile and a reliable payment track record.
- The Group has been successful in implementing a package of cost reductions measures in recent months that will reduce the Group's cost basis over the foreseeable future.
- Liquidity over the next twelve months has been rigorously tested against a range of hypothetical downside scenarios, mainly driven by the potential market risks to rates and the delivery of additional business. Future cash flows and liquidity were found to be robust against the crystallisation of a series of risks that Management believe to be remote, when aggregated together.

GMS believes that the material uncertainty in respect of going concern that is described further below can be managed effectively and accordingly the going concern basis has been adopted in the consolidated financial statements.

Balance sheet

Total current assets at 31 December 2019 were US$ 47.9 million (2018: US$ 52.5 million). Cash and cash equivalents decreased to US$ 8.4 million (2018: US$ 11.0 million), reflecting the timing of working capital payments and the lower draw down on the working capital facility drawdown compared to 2018 and careful capital spend management. Trade and other receivables decreased from US$ 40.9 million in 2018 to US$ 39.2 million as at 31 December 2019. Trade receivables are mainly with NOC, IOC and international EPC companies, with over 96% of debt being aged between 0-60 days.

Total current liabilities increased to US$ 438.3 million at 31 December 2019 (2018: US$ 436.6 million), primarily as a result of the amortisation of term loan debt, which has more than offset fluctuations in trade creditors and a US$ 5.0 million draw on our working capital facility. Term loan debt is currently included in current liabilities, split between payments due within one year and greater than one year while the Group is in breach of its loan covenants. It will

be reclassified as a non-current liability, once formal loan documentation with lenders is executed.

Total non-current assets at 31 December 2019 were US$ 722.3 million (2018: US$ 802.9 million). This decrease is primarily due to the US$ 84.4 million decrease in the net book value of property, plant and equipment arising from depreciation which has more than offset capital expenditure. In addition, an impairment charge of US$ 59.1 million has been recognised (see above).

Net bank debt and borrowings

Net borrowings were US$ 390.1 million as at 31 December 2019 (2018: US$ 400.5 million), mainly reflecting the amortisation of term loan debt, which has more than offset reduced cash balances.

On 31 March 2020, the Group's banking syndicate granted GMS relief under its existing bank facilities in the form of (i) the rollover of certain loans, (ii) the waiver of applicable financial covenant tests and (iii) the deferral of the principal payments due thereunder, in each case from 31 March 2020 until 30 June 2020. 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.

Going Concern

The Group has been in negotiation, with lenders, on a longer-term solution to its capital structure for the last twelve months. On 31 March 2020, it agreed a non-binding term sheet for the restructuring of its existing facilities. This seeks to address both covenant levels and amortisation profile going forward. It would also give the Group access to working capital and bonding facilities. Drafting of the detailed loan documentation with lenders is already underway, and the new facilities are expected to be fully in place by the end of June 2020. While the term sheet is not legally binding it reflects the commitment of our lenders to restructure the debt facilities in a way that will support the business as a Going Concern.

Should final loan documentation not be put in place, the lenders would retain the right to call default on the loans, as at 30 June 2020, when the next set of amortisation payments fall due. This would allow a majority of the lenders, representing at least 66.67% of total commitments, to exercise their rights demand immediate repayment and or enforce its rights over the security granted by the Company as part of this facility either through enforcing security over assets and/or exercising the share pledge to take control of the business.

The need to complete binding loan documentation in respect of the Group's restructured banking facilities and the Group's tight short-term liquidity position (described in the Cash Flow and Liquidity section above) indicate a material uncertainty that may cast significant doubt as to the Group's ability to continue as a going concern. Notwithstanding this material uncertainty, the Directors believe that based on the progress made to date in this regard, there is good reason to believe that final loan documentation will be completed in a timely fashion, and that the Group's working capital and liquidity position can be managed effectively to ensure that the Group can continue to continue to realise its assets and discharge its liabilities in the normal course of business. Please refer to Note 3 of the consolidated financial statements for further details.

COVID-19

The impact of COVID-19 and the low oil price environment has been fully considered in making this judgement. While circumstances are continually evolving, the risks are mitigated by the high level of committed contracts underpinning current forecasts; preventive measures taken by management to mitigate operational risks; continued evidence of demand in core Middle East markets; further cost cutting measures taken to improve financial resilience in the current environment.

Possible offer to acquire the Company by Seafox International Limited ("Seafox")

As announced in the RNS released by the Company on 30th April 2020, Seafox has announced that it made a non-binding proposal to the Board of GMS on 26 April 2020 regarding a possible cash offer for the entire issued and to be issued share capital of GMS by a wholly owned subsidiary of Seafox, at a value of US$0.09 per GMS ordinary share (the "Proposal"). The Board is currently considering the Proposal as of the date of this report. The Board has considered the existence of the Proposal in its assessment of going concern and has concluded that it does not alter the nature of the material uncertainties or the Board's conclusion in respect of the Group continuing to be a going concern that have been disclosed further in note 3.

Related party transactions

During the year there were related party transactions with our partner in Saudi for leases of breathing equipment for some of our vessels and office space totalling US$ 1.0 million. These transactions were at usual commercial terms.

Steve Kersley
Chief Financial Officer
1 May 2020

GULF MARINE SERVICES PLC

Consolidated statement of profit or loss and other comprehensive income

As at 31 December 2019

	Note	2019	2018
		US$'000	US$'000
Revenue	20	**108,721**	123,335
Cost of sales		**(74,570)**	(76,317)
Impairment		**(59,125)**	–
Gross (loss)/ profit		**(24,974)**	47,018
General and administrative expenses		**(17,788)**	(18,556)
Restructuring costs	21	**(6,322)**	–
Finance income		**16**	22
Finance expense		**(32,063)**	(31,301)
Other income		**543**	146
Foreign exchange (loss)/gain, net		**(1,181)**	266
Loss for the year before taxation		**(81,769)**	(2,405)
Taxation charge for the year		**(3,696)**	(2,698)
Loss for the year		**(85,465)**	(5,103)
Other comprehensive expense - items that may be reclassified to profit or loss:			
Net (loss)/gain on cash flow hedges		**(165)**	685
Net change in cost of hedging		**(1,337)**	(923)
Exchange differences on translating foreign operations		**164**	(615)
Total comprehensive loss for the year		**(86,803)**	(5,956)
Loss attributable to:			
Owners of the Company		**(85,778)**	(6,126)
Non-controlling interests		**313**	1,023
		(85,465)	(5,103)
Total comprehensive loss attributable to:			
Owners of the Company		**(87,116)**	(6,979)
Non-controlling interests		**313**	1,023
		(86,803)	(5,956)
Loss per share:			
Basic (cents per share)		**(24.48)**	(1.75)

Diluted (cents per share)		**(24.48)**	(1.75)

All results are derived from continuing operations in each year.

	Note	2019	2018
		US$'000	US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	**714,234**	798,595
Dry docking expenditure	5	**5,454**	2,401
Right-of-use assets	6	**2,644**	–
Deferred tax asset		**-**	1,866
Total non-current assets		**722,332**	802,862
Current assets			
Trade and other receivables	7	**39,185**	40,919
Derivative financial instruments		**-**	543
Cash and cash equivalents	8	**8,404**	11,046
Vessel held for sale	9	**300**	-
Total current assets		**47,889**	52,508
Total assets		**770,221**	855,370
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	**58,057**	57,992
Share premium account		**93,080**	93,080
Restricted reserve		**272**	272
Group restructuring reserve	11	**(49,710)**	(49,710)
Share option reserve	12	**3,572**	3,410
Capital contribution		**9,177**	9,177
Cash flow hedge reserve		**520**	685
Cost of hedging reserve		**(2,260)**	(923)
Translation reserve		**(2,420)**	(2,584)
Retained earnings		**217,724**	303,319
Attributable to the Owners of the Company		**328,012**	414,718
Non-controlling interests		**1,659**	1,346

Total equity		**329,671**	416,064
Current liabilities			
Trade and other payables	13	**31,785**	18,833
Current tax liability		**4,289**	5,442
Bank borrowings - scheduled repayments within one year	14	**89,284**	20,338
Bank borrowings - scheduled repayments more than one year	14	**309,218**	391,177
Lease liabilities	15	**1,954**	–
Derivative financial instruments		**1,740**	781
Total current liabilities		**438,270**	436,571
Non-current liabilities			
Provision for employees' end of service benefits		**2,280**	2,722
Deferred tax liability		**-**	13
Total non-current liabilities		**2,280**	2,735
Total liabilities		**440,550**	439,306
Total equity and liabilities		**770,221**	855,370

	Share capital	**Share premium account**	**Restricted reserve**	**Group restructuring reserve**	**Share option reserve**	**Capital contribution**	**Cash flow hedge reserve**	**Cost of hedging reserve**	**Translation reserve**	**Retained earnings**	**Attributable to the Owners of the Company**	**Non-controlling interests**	**Total equity**
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
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	–	–	–	–	–	–	685	(923)	(615)	(6,126)	(6,979)	1,023	(5,956)
Share options rights charge *(Note 12)*	–	–	–	–	985	–	–	–	–	–	985	–	985
Shares issued under LTIP schemes *(Note 12)*	35	5	–	–	(40)	–	–	–	–	–	–	–	–
Dividends declared during the year	–	–	–	–	–	–	–	–	–	–	–	(275)	(275)
At 31 December 2018 as previously reported	57,992	93,080	272	(49,710)	3,410	9,177	685	(923)	(2,584)	303,319	414,718	1,346	416,064
Adjustment on adoption of IFRS 16	-	-	-	-	-	-	-	-	-	183	183	-	183
At 1 January 2019 amended	57,992	93,080	272	(49,710)	3,410	9,177	685	(923)	(2,584)	303,502	414,901	1,346	416,247
Total comprehensive loss	-	-	-	-	-	-	(165)	(1,337)	164	(85,778)	(87,116)	313	(86,803)
Share options rights charge *(Note 12)*	-	-	-	-	227	-	-	-	-	-	227	-	227

Shares issued under LTIP schemes *(Note 12)*	65	-	-	-	(65)	-	-	-	-	-	-	-	-
Dividends declared during the year	-	-	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2019	**58,057**	**93,080**	**272**	**(49,710)**	**3,572**	**9,177**	**520**	**(2,260)**	**(2,420)**	**217,724**	**328,012**	**1,659**	**329,671**

		2019	2018
		US$'000	US$'000
Net cash generated from operating activities	22	**51,344**	28,876
Investing activities			
Payments for property, plant and equipment		**(4,641)**	(21,190)
Proceeds from disposal of property, plant and equipment		**14**	80
Dry docking expenditure incurred		**(4,813)**	(1,890)
Interest received		**16**	22
Net cash used in investing activities		**(9,424)**	(22,978)
Financing activities			
Bank borrowings received		**5,000**	20,000
Repayment of bank borrowings		**(18,329)**	(20,653)
Principal elements of lease payments		**(3,433)**	–
Payment of issue cost on bank borrowings		**(92)**	(796)
Interest paid		**(27,708)**	(32,357)
Net cash used in financing activities		**(44,562)**	(33,806)
Net decrease in cash and cash equivalents		**(2,642)**	(27,908)
Cash and cash equivalents at the beginning of the year		**11,046**	38,954
Cash and cash equivalents at the end of the year		**8,404**	11,046
Non - cash transactions			
Shares issued under LTIP schemes		**65**	35

Notes to the condensed consolidated financial information for the year ended 31 December 2019

1 Basis of preparation

The preliminary announcement does not constitute the Group's statutory accounts for the year ended 31 December 2019, but is derived from those accounts. Statutory accounts for the year ended 31 December 2019 were approved by the Directors on 30 April 2020 and will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The independent auditor's report on those financial statements was unqualified, but did draw specific attention to the material uncertainty relating to the Company and the Group's ability to continue as a going concern and did not include a statement under Section 498 (2) or (3) of the 2006 Companies Act.

The 2019 Annual Report will be posted to shareholders in advance of the Annual General Meeting.

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.

2 Going concern

The Company's Directors have assessed the Group's financial position for a period of not less than 12 months from the date of approval of the full year results.

The Group had committed credit facilities in place at 31 December 2019 (see *Note 14*), comprising an existing Term Loan facility with a balance of US$ 373.5 million and a Cash Working Capital Facility of US$ 25.0 million which was fully drawn.

On 31 March 2020, the Company's banks agreed to waive the testing requirement of all covenants for the 31 December 2019 test date. While the Group was able to service term loan interest and amortisation repayments through 2019, it was unable to continue to meet the capital repayment schedule from March 2020 onwards, when the repayments materially increased. A waiver for the US$ 15.5 million amortisation payment on the term loan as at 31 March 2020 was also received on 31 March 2020.

The Group has been in negotiation with lenders on a longer-term solution to its capital structure for the last twelve months. On 31 March 2020, it reached agreement in principle on a draft term sheet for the restructure of its existing debt facilities. All banks agreed to work to complete the necessary loan documentation by 30 June 2020. Drafting of such documentation with lenders is already underway, and based on progress to date, Management currently expects to have the new facilities fully in place by the end of June 2020.

Should final loan documentation not be put in place by 30 June 2020, when the next set of the current amortisation payments fall due, the banks would retain the right, under the existing loan terms, to call default on the loans, as of that date. This would allow a majority of banks, representing at least 66.67% of total commitments, to exercise their rights to recall all credit facilities, demand immediate repayment and/ or enforce its rights over the security granted by the Company as part of this facility either through enforcing security over assets and/or exercising the share pledge to take control of the Group.

The Directors consider that if the Group's debt were to be restructured in line with the proposed term sheet, it would address the current challenges it currently faces in being able to comply with both the covenant terms and the amortisation profile under the existing banking facilities. It would also give the Group access to working capital and bonding facilities each totaling US$ 25 million, which are important for GMS to conduct its business efficiently.

In addition, and in particular subsequent to the Group having repaid the interest payment of US$ 7.0 million that fell due under the terms of the Group's existing bank facilities on 31 March 2020, the Group's short- term liquidity position is currently very tight. This will continue to require careful management until such time as the Group's banking facilities are restructured (currently anticipated in the scenario described above to be no later than 30 June 2020), and further access is obtained to additional working capital facilities.

Notwithstanding the above, the Directors are confident that they can successfully manage the risks around maintaining the Group's liquidity over the period until its debt facilities are expected to be restructured. This confidence is based on a number of factors and/or mitigating actions available to them to do so, including:

- Over the last nine months, Management have been successful in optimising terms with trade debtors and creditors using the strength of its business relationships.
- The Group has a high level of committed contracts for its vessels that underpins Management current revenue forecasts for the next twelve months. These contracts provide the Group with relatively high EBITDA margins from a core base of customers that typically have a strong credit profile and a reliable payment track record.
- The Group has been successful in implementing a package of cost reductions measures in recent months that will reduce the Group's cost basis over the foreseeable future.
- Liquidity over the next twelve months has been rigorously tested against a range of hypothetical downside scenarios, mainly driven by the potential market risks to rates and the delivery of additional business. Future cash flows and liquidity were found to be robust against the crystallisation of a series of risks that Management believe to be remote, when aggregated together.

The need to complete binding loan documentation in respect of the Group's restructured banking facilities and the Group's tight short-term liquidity position indicate a material uncertainty that may cast significant doubt as to the Group's ability to continue as a going concern. Notwithstanding this material uncertainty, the Directors believe that based on the progress made to date in this regard, there is good reason to believe that final loan documentation will be completed in a timely fashion; and that the Group's working capital and liquidity position can be managed effectively to ensure that the Group can continue to continue to realise its assets and discharge its liabilities in the normal course of business. Accordingly, they have adopted the going concern basis of accounting in preparing the consolidated financial statements.

The impact of COVID-19 and the low oil price environment has been fully considered in making this judgement. While circumstances are continually evolving, the associated risks are mitigated to a substantial degree by the high level of committed contracts underpinning current forecasts; preventive measures taken by management to mitigate operational risks; continued evidence of demand in our core Middle Eastern market; further cost cutting measures taken to improve financial resilience in the current environment.

This matter is further discussed in the Group's Long Term Viability Statement in the Report of the Audit and Risk Committee.

Seafox International Limited has announced that it made a non-binding proposal to the Board of GMS on 26 April 2020 (see *note 24* for details). The Board has considered the existence of the Proposal in its assessment of going concern and has concluded that it neither alters the nature of the material uncertainties, nor the Board's conclusion in respect of the adoption of the going concern basis in these consolidated financial statements.

3 Significant accounting policies

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

4 Property, plant and equipment

	Vessels	Capital work-in-progress	Land, building and improvements	Vessel spares, fitting and other equipment	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Cost						
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)
At 31 December 2018	908,851	12,765	10,469	60,774	3,700	996,559
Additions	–	4,913	–	–	–	4,913
Transfers	12,438	(12,821)	19	285	79	–
Disposals	-	–	–	(37)	(49)	(86)
Write off	(1,597)	–	–	(279)	(60)	(1,936)
Reclassification to vessel held for sale (*Note 9*)	(35,195)	–	–	–	–	(35,195)
At 31 December 2019	**884,497**	**4,857**	**10,488**	**60,743**	**3,670**	**964,255**

	Vessels	Capital work-in-progress	Land, building and improvements	Vessel spares, fitting and other equipment	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Accumulated depreciation						
At 1 January 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	–	–
At 31 December 2018	176,274	–	7,167	11,002	3,521	197,964
Eliminated on disposal of assets	-	–	–	(37)	(49)	(86)
Write off	(1,597)	–	–	(279)	(60)	(1,936)
Depreciation expense	25,743	–	847	3,137	122	29,849
Impairment*	56,280	2,845	–	–	–	59,125
Reclassification to vessel held for sale (*Note 9*)	(34,895)	-	–	–	–	(34,895)

At 31 December 2019	**221,805**	**2,845**	**8,014**	**13,823**	**3,534**	**250,021**
Carrying amount						
At 31 December 2019	**662,692**	**2,012**	**2,474**	**46,920**	**136**	**714,234**
At 31 December 2018	732,577	12,765	3,302	49,772	179	798,595

Depreciation amounting to US$ 29.0 million (2018: US$ 26.1 million) has been allocated to cost of sales. The balance of the depreciation charge is included in general and administrative expenses.

No borrowing costs have been capitalised as a part of the additions to the vessels under construction (2018: Nil).

Vessels with a total net book value of US$ 662.7 million (2018: certain vessels with a net book value of US$ 679.5 million), have been mortgaged as security for the loans extended by the Group's banking syndicate

During the year, Naashi, a non-core vessel and the oldest in the GMS fleet at 37 years was reclassified from Vessels to a Non-current asset held for sale. A Letter of Intention was signed to sell the vessel for proceeds amounting to US$ 0.6 million. Subsequent to the year end, in January 2020 the associated mortgage was released and the sale completed.

***Impairment**

Conditions in North West Europe were challenging, as utilisation and rates for the three E-Class vessels located there in 2019 were lower than previously anticipated. In December 2019, management decided to relocate two of these three vessels to the Middle East. These market conditions and the extent of the fall in share price during the year were identified as indicators of impairment and accordingly the Group undertook a full assessment of recoverable amount of its assets at 31 December 2019. The review was done by identifying the value in use of each vessel in the fleet, based on management's projections of utilisation and day rates and associated cash flows. The risk adjusted cash flows have been discounted using a nominal pre-tax discount rate of 9.25% (2018: 11.5%), which reflects the current market assessment of the time value of money and is based on the Group's weighted average cost of capital. The discount rate has been calculated using industry sector average betas, risk free rates of return as well as specific adjustments for country risk and tax regimes in the countries in which the group operate. This review led to the recognition of an aggregate impairment of US$ 54.6 million on two of our E-Class vessels: US$ 23.0 million on Endeavour and US$ 31.6 million on Evolution which both had higher specifications and therefore higher carrying values than the other E-Class vessels in the fleet. The recoverable amount of Endeavour is US$ 76.6 million and for Evolution is US$ 88.8 million.

The Group has also recognised an impairment charge of US$ 1.7 million (31 December 2018: nil) on a non-operating vessel, Naashi, to reduce its carrying amount to its estimated recoverable amount of US$ 0.3 million. The vessel has then been classified as a current asset held for sale as at 31 December 2019, refer to *Note 9* for further details. An amount of US$ 2.8 million (31 December 2018: nil) has also been recognised as an impairment on capital work-in-progress. There is no impairment identified for any other vessels.

The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each of the vessels. The directors believe that for all vessels that have not been identified as impaired, any reasonably possible change in the key assumptions on which the recoverable amount of each vessel is based would not cause the carrying amount to exceed the recoverable amount. The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumption (rates and utilisation). The projected revenues were reduced in a tiered system which assumes a 10% revenue reduction for the first 10 years, reducing to 7.5% for the next five years followed by a reduction of 5% for the remaining useful economic life. For all vessels other than Endeavour and Evolution this did not identify an impairment. For the two impaired vessels, this would lead to an additional charge of US$ 23.7 million.

5 Dry docking expenditure

The movement in dry docking expenditure is summarised as follows:

	2019	2018
	US$'000	US$'000
At 1 January	**2,401**	2,711
Expenditure incurred during the year	**5,328**	1,890
Amortised during the year	**(2,275)**	(2,200)
At 31 December	**5,454**	2,401

6 Right-of-use assets

	Buildings	**Communications equipment**	**Operating equipment**	**Total**
	US$'000	US$'000	US$'000	US$'000
Cost				
On adoption of IFRS 16	2,652	-	3,470	6,122
Additions	467	251	142	860

Derecognised	(2,103)	-	-	(2,103)
At 31 December 2019	**1,016**	**251**	**3,612**	**4,879**
Accumulated amortisation				
At 1 January 2019	-	-	-	-
Amortisation for the year	1,172	7	1,712	2,891
Derecognised	(656)	-	-	(656)
At 31 December 2019	**516**	**7**	**1,712**	**2,235**
Carrying amount				
At 31 December 2019	**500**	**244**	**1,900**	**2,644**
Non-current portion	477	84	604	1,165
Current portion	23	160	1,296	1,479
Carrying value at 31 December 2019	**500**	**244**	**1,900**	**2,644**

The Group also has certain leases of staff accommodation with lease term of 12 months or less and with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. During the year ended 31 December 2019, lease expense recognised for short term leases and leases of low value amounts to US$ 0.5 million.

As a result of restructuring the organisation (see *Note 21*), two property leases were terminated early. Accordingly, the associated right-of-use assets and leases have been derecognised.

7 Trade and other receivables

	2019	2018
	US$'000	US$'000
Trade receivables	**25,107**	33,009
Less: Allowance for expected credit losses (ECL)	**(64)**	(94)
Less: Allowance for doubtful receivables	**(64)**	(50)
Trade receivables	**24,979**	32,865
Accrued revenue, net*	**48**	2,924
Prepayments and deposits**	**12,465**	4,308
Advances to suppliers	**–**	441
VAT receivables	**–**	103
Other receivables	**1,693**	278
At 31 December	**39,185**	40,919

Included in the Group's trade receivables balance are receivables with a gross amount of US$ 1.6 million (2018: US$ 6.4 million) which are past due for 30 days or more at the reporting date. The average age of these past due receivables is 139 days (2018: 188 days).

At 31 December, the analysis of trade receivables is as follows:

	Number of days past due					
Current	**< 30 days**	**31-60 days**	**61-90 days**	**91-120 days**	**> 120 days**	**Total**
US$'000	US'000	US'000	US'000	US'000	US'000	US'000

Trade receivables	23,521	11	634	–	–	941	25,107
Less: Allowance for expected credit losses	(54)	–	(2)	–	–	(8)	(64)
Less: Allowance for doubtful receivables	–	–	–	–	–	(64)	(64)
Net trade receivables 2019	**23,467**	**11**	**632**	**–**	**–**	**869**	**24,979**
Trade receivables	19,296	7,296	1,993	1,380	1,274	1,770	33,009
Less: Allowance for expected credit losses	(48)	(20)	(5)	(7)	(3)	(11)	(94)
Less: Allowance for doubtful receivables	(3)	(11)	–	–	–	(36)	(50)
Net trade receivables 2018	19,245	7,265	1,988	1,373	1,271	1,723	32,865

Eight customers (2018: ten) account for 99% (2018: 99%) of the total trade receivables balance (see revenue by segment information in *Note 17*); however, credit risk is considered to be limited due to historical performance and ongoing assessments of customer credit and liquidity positions.

8 Cash and cash equivalents

	2019	2018
	US$'000	US$'000
Interest bearing		
Held in UAE banks	**47**	26
Non-interest bearing		
Held in UAE banks	**10,966**	9,177
Held in banks outside UAE	**12**	2,448
Total cash at bank and in hand	**11,025**	11,651

	2019	2018
	US$'000	US$'000
Presented as:		
Restricted cash included in trade and other receivables *(Note 7)*	**2,621**	605
Cash and cash equivalents	**8,404**	11,046
Total	**11,025**	11,651

The carrying value of these cash assets is approximately equal to their fair value. These represent level 1 fair value measurements as defined by the fair value hierarchy according to IFRS 13.

9 Vessel held for sale

Naashi is a non-core vessel and the oldest in the GMS fleet at 37 years. Naashi was last in operation in 2016 and since then and until the end of the year was fully cold stacked at the port of Mussafah, in the UAE.

During the year, a Letter of Intention for sale of the vessel was signed to sell the vessel for proceeds amounting to US$ 0.6 million In January 2020 the associated mortgage was released and the sale completed.

	2019	2018
	US$'000	US$'000
Cost		
At 1 January	**-**	-
Reclassification from property, plant and equipment	**35,195**	-
At 31 December	**35,195**	-
Accumulated depreciation		
At 1 January	**-**	
Reclassification from property, plant and equipment	**34,895**	-
At 31 December	**34,895**	-

Carrying amount	**300**	-

10 Share Capital

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

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

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

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

On 2 April 2019, the Company issued a total of 519,909 ordinary shares at par value of 10 pence per share in respect of the Company's 2016 long-term incentive plan.

The movement in issued share capital and share premium is provided below. The share capital of Gulf Marine Services PLC was as follows:

	Number of ordinary shares	Ordinary shares	Total
	(thousands)	US$'000	US$'000
At 31 December 2019			
Authorised share capital	**350,488**	**58,057**	**58,057**
Issued and fully paid	**350,488**	**58,057**	**58,057**
At 31 December 2018			
Authorised share capital	349,968	57,992	57,992
Issued and fully paid	349,968	57,992	57,992

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

	Number of ordinary shares	Ordinary shares	Share premium account	Total
	(thousands)	US$'000	US$'000	US$'000
At 1 January 2018	349,704	57,957	93,075	151,032
Shares issued under LTIP schemes	264	35	5	40
At 31 December 2018	**349,968**	**57,992**	**93,080**	**151,072**
Shares issued under LTIP schemes	520	65	-	65
At 31 December 2019	**350,488**	**58,057**	**93,080**	**151,137**

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 Share option reserve

Share option reserve of US$ 3.6 million (2018: US$ 3.4 million) relates to awards granted to employees under the long-term incentive plans. The charge of US$ 0.4 million (2018: US$ 1.0 million) in the year is included in cost of sales and, general and administrative expenses in the statement of comprehensive income.

13 Trade and other payables

	2019	2018
	US$'000	US$'000

Trade payables	**11,500**	8,900
Due to a related party	**136**	85
Accrued expenses	**15,749**	8,783
Deferred revenue	**3,359**	224
Dividend payable	**658**	658
VAT payable	**289**	–
Other payables	**94**	183
	31,785	18,833

The average credit period on purchases is 90 days (2018: 90 days). No interest is payable on the outstanding balances.

Trade and other payables are all current liabilities and the Directors consider that the carrying amount of trade and other payables is approximately equal to their fair value due to the short time between inception and maturity. These represent level 2 fair value measurements as defined by the fair value hierarchy according to IFRS 13.

14 Bank borrowings

Secured borrowings at amortised cost are as follows:

	2019	2018
	US$'000	US$'000
Term loans	**373,502**	391,515
Working capital facility	**25,000**	20,000
	398,502	411,515

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

	2019	2018
	US$'000	US$'000
Non-current portion		
Bank borrowings	**-**	–
Current portion		
Bank borrowings - scheduled repayments within one year	**89,284**	20,338
Bank borrowings - scheduled repayments more than one year	**309,218**	391,177
	398,502	411,515

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

- The facility is repayable with final maturity in December 2023 (2018: December 2023);
- The revolving working capital facility has lapsed as at 31 December 2019 and as a result no undrawn facility is available. (2018: US$ 30.0 million was available for drawdown until December 2023);
- The facility remains secured by mortgages over certain Group vessels, with a net book value at 31 December 2019 of US$ 662.7 million (2018: US$ 679.5 million);
- The facility is subject to certain financial covenants including; Finance Service Cover, Interest Cover, Net Leverage Ratio, and Security Cover (loan to value).

On 31 December 2019, the Group agreed covenant relief with reference to the 30 June 2019 testing dates. During 2020, this relief was extended again. On 31 March 2020, the Group agreed heads of terms with its syndicate of banks for the restructuring of its debt facilities, including access to existing term loan facilities and new working capital facilities. While legally non-binding, the heads of terms has received approval from the credit committees of all of the syndicate. The Group and syndicate are working to finalise the documentation by 30 June 2020. To allow this process time to conclude, the syndicate have granted GMS relief under its existing bank facilities in the form of (i) the rollover of certain loans, (ii) the waiver of applicable financial covenant tests and (iii) the deferral of the principal payments due thereunder, in each case from 31 March 2020 until 30 June 2020. 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.

	Outstanding amount					
	Current	Non-current	Total	Unused facility	Security	Maturity
	US$'000	US$'000	US$'000	US$'000		
31 December 2019:						
Term loan - scheduled repayments within one year	**64,284**	–	**64,284**	–	Secured	December 2023
Term loan - scheduled repayments more than one year	**309,218**	–	**309,218**	–	Secured	December 2023
Working capital facility - scheduled repayment within one year	**25,000**	–	**25,000**	**-**	-	-
	398,502	–	**398,502**	**-**	**-**	**-**
31 December 2018:						
Term loan - scheduled repayments within one year	20,338	–	20,338	–	Secured	December 2023
Term loan - scheduled repayments more than one year	371,177	–	371,177	–	Secured	December 2023
Working capital facility - scheduled repayment more than one year	20,000	–	20,000	30,000	Secured	December 2023
	411,515	–	411,515	30,000		

15 Lease liabilities

	Total
	US$'000
Maturity analysis:	
Year 1	**1,204**
Year 2	**355**
Year 3 - 5	**395**
Onwards	**-**
Less: unearned interest	**-**
	1,954
Non-current	**750**
Current	**1,204**
	1,954

The Group also has certain leases of staff accommodation with lease term of 12 months or less and with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. During the year ended 31 December 2019, lease expense recognised for short term leases and leases of low value amounts to US$ 0.5 million. In addition, certain property leases were derecognised as part of the restructuring of the business (*Note 21*).

16 Financial instruments

Categories of financial instruments

	2019	2018
	US$'000	US$'000
Financial assets:		
Derivatives designated as hedging instruments:		
Cross currency interest rate swap	**-**	543

Current assets at amortised cost:		
Cash and cash equivalents (*Note 8*)	**8,404**	11,046
Trade receivables and other receivables (*Note 7*)	**29,341**	36,671
Total financial assets	**37,745**	48,260

Categories of financial instruments (continued)

Derivatives designated as hedging instruments reflect the positive change in the fair value of cross currency interest rate swaps, designated as cash flow hedges to hedge highly probable volatility in exchange rates and in interest rates.

	2019 US$'000	2018 US$'000
Financial liabilities:		
Derivatives designated as hedging instruments:		
Interest rate swap	**1,740**	781
Financial liabilities recorded at amortised cost:		
Trade and other payables (*Note 13*)	**28,001**	18,609
Lease liabilities	**1,954**	-
Current bank borrowings - scheduled repayments within one year *(Note 14)*	**89,284**	20,338
Current bank borrowings - scheduled repayments more than one year *(Note 14)*	**309,218**	391,177
Total financial liabilities	**430,197**	430,905

As described in *Note 14,* total loan amounts have been presented as a current liability as the Group did not have an unconditional right at that date to defer repayment of these loans beyond twelve months.

Derivatives designated as hedging instruments reflect the negative change in the fair value of interest rate swaps, designated as cash flow hedges to hedge highly probable volatility in exchange rates and in interest rates.

Capital risk management

The Group manages its capital to support its ability to continue as a going concern while maximising the return on equity. The Group does not have a formalised optimal target capital structure or target ratios in connection with its capital risk management objectives. The Group's overall strategy in this regard remains unchanged throughout the years ended 31 December 2019 and 2018. The capital structure of the Group consists of net bank debt and total equity.

Significant accounting policies

Financial risk management objectives

The Group is exposed to the following risks related to financial instruments - credit risk, liquidity risk, interest rate risk and foreign currency risk. Management actively monitors and manages these financial risks relating to the Group. The Group has considered the risks arising from the uncertainty surrounding negotiations on the United Kingdom's ("UK") exit from the European Union ("Brexit") on amounts presented in these consolidated financial statements. From 2020 there is one vessel operating in North West Europe and no UK-based employees or operations, therefore the exposure is not considered to be significant beyond the foreign currency described later.

Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group, and arises principally from the Group's trade and other receivables and bank balances. The Group has adopted a policy of only dealing with creditworthy counterparties which have been determined based on credit checks and other financial analysis, such that significant revenue is generated by dealing with high profile well known customers, for whom the credit risk is assessed to be suitably low. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific non-related counterparties, and continually assessing the creditworthiness of such non-related counterparties.

Cash balances held with banks are assessed to have low credit risk of default since these banks are highly regulated by the central banks of the respective countries.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. During the year, vessels were chartered to twelve Middle East and four international companies, including international oil companies and engineering, procurement and construction ("EPC") contractors. At 31 December 2019, these sixteen companies accounted for 100% (2018: thirteen companies accounting for 92%) of the outstanding trade receivables. The credit risk on liquid funds is limited because the funds are held by banks with high credit ratings assigned by international agencies.

The amount that best represents maximum credit risk exposure on financial assets at the end of the reporting period, in the event counterparties failing to perform their obligations generally approximates their carrying value. Trade and other receivables and cash balances held with banks are not secured by any collateral.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, The Group manages liquidity risk by seeking to maintain sufficient

facilities to ensure availability of funds for forecast and actual cash flow requirements.

The table below summarises the maturity profile of the Group's financial liabilities. The contractual maturities of the Group's financial liabilities have been determined on the basis of the remaining period at the end of the reporting period to the contractual maturity date. The maturity profile is monitored by management to assist in ensuring adequate liquidity is maintained. Refer to Going Concern.

Liquidity risk management (continued)

The maturity profile of the assets and liabilities at the end of the reporting period based on contractual repayment arrangements was as follows:

	Interest rate	1 to 3 months	4 to 12 months	2 to 5 years	After 5 years
		US$'000	US$'000	US$'000	US$'0000
31 December 2019					
Non-interest bearing financial assets		**35,077**	**2,621**	**–**	**–**
Interest bearing financial assets	5%-6%	**47**	**–**	**–**	**–**
		35,124	**2,621**	**–**	**–**
Non-interest bearing financial liabilities		**29,955**	**–**	**–**	**–**
Interest bearing financial liabilities	7.1%-7.8%	**398,502**	**1,740**	**–**	**–**
		428,457	**1,740**	**–**	**–**

	Interest rate	1 to 3 months	4 to 12 months	2 to 5 years	After 5 years
		US$'000	US$'000	US$'000	US$'0000
31 December 2018					
Non-interest bearing financial assets		47,085	606	–	–
Interest bearing financial assets	4-5%	26	543	–	–
		47,111	1,149	–	–
Non-interest bearing financial liabilities		18,609	–	–	–
Interest bearing financial liabilities	6.2-7.4%	411,515	781	–	–
		430,124	781	–	–

Management believe that the difference between fair value and carrying value is negligible.

Interest rate risk management

The Group is exposed to cash flow interest rate risk on its bank borrowings which are subject to floating interest rates.

The Group uses an Interest Rate Swap ("IRS") to hedge a notional amount of US$ 50.0 million (2018: US$ 50.0 million). The remaining amount of notional hedged from the IRS as at 31 December 2019 was US$ 46.2 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 31 December 2019 was a liability value of US$ 1.7 million (2018: US$ 0.8 million),

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2019 would decrease/increase by US$ 2.0 million (2018: decrease/increase US$: 2.1 million). This is mainly attributable to the Group's exposure to interest

rates on its variable rate borrowings.

Foreign currency risk management

The majority of the Group's transactions are denominated in UAE dirhams, euros, US dollars and pound sterling. As the UAE dirham and Saudi riyal are pegged to the US dollar, balances in UAE dirham and Saudi riyals are not considered to represent significant currency risk. Transactions in other foreign currencies entered into by the Group are short-term in nature and therefore management considers that the currency risk associated with these transactions is limited.

Brexit could impact Group operations and our exposure to transactions in pound sterling, creating foreign currency risk for transactions entered into by the Group in pound sterling. Management continue to monitor changes in legislation and future policies and will develop suitable mitigants as developments unfold.

During the year ended 31 December 2018, the Group entered into a Cross Currency Interest Rate Swap CCIRS to hedge a notional amount of US$ 36.7 million. As at 31 December 2019, the amount of notional hedged from the CCIRS was US$ 2.5 million (2018: US$ 22.4 million). The CCIRS hedges the volatility in GBP to USD exchange rates as well as variability in interest rate payments by converting a USD floating rate loan with USD 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 31 December 2019 was an asset value of US$ nil (2018: US$ 0.5 million),

The carrying amounts of the Group's significant foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	31 December		**31 December**	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
UAE Dirhams	**2,923**	4,523	**6,765**	2,248
Saudi Riyals	**5,216**	5,196	**1,537**	585
Pound Sterling	**10**	10,626	**3,202**	1,491
Euro	**2,184**	5,029	**–**	1,039
Qatari Riyals	**2,255**	–	**132**	–
Norw egian Krone	**–**	–	**–**	6
Others	**–**	–	**–**	27
	12,588	25,374	**11,636**	5,396

At 31 December 2019, if the exchange rate of the currencies other than the UAE Dirham and Saudi Riyal had increased/decreased by 10% against the US Dollar, with all other variables held constant, the Group's loss for the year would have been higher/lower by US$ 0.1 million (2018: higher/lower by US$ 1.3 million) mainly as a result of foreign exchange loss or gain on translation of Euro and Pound Sterling denominated balances.

17 Segment reporting

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

The operating and reportable segments of the Group are (i) K-Class vessels, which include the Kamikaze, Kikuyu, Kawawa, Kudeta, Keloa and Pepper vessels (ii) S-Class vessels, which include the Shamal, Scirocco and Sharqi vessels, (iii) E-Class vessels, which include the Endeavour, Endurance, Enterprise and Evolution vessels, and (iv) Other vessels, considered non-core assets, which includes one 37-year old vessel (Naashi- for further details refer to *Note 9*), which does not form part of the K, S or E Class vessels segments. The composition of the Other vessels segment, which are non-core assets, was amended in 2018, following the reclassification of the vessel Naashi from K-Class vessels to Other vessels. In 2019, Naashi was reclassified from Other vessels to a non-current asset held for sale, refer to *Note 9* for further details. The sale was completed in January 2020.

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.

	Revenue		**Segment gross profit/(loss)**	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
K-Class vessels	**37,313**	35,847	**23,200**	20,836
S-Class vessels	**35,422**	35,407	**23,578**	22,960
E-Class vessels	**35,984**	52,077	**18,779**	31,563
Other vessels	**2**	4	**(87)**	(58)
	108,721	123,335	**65,470**	75,301
Less:				
Depreciation charged to cost of sales			**(29,045)**	(26,083)
Amortisation charged to cost of sales			**(2,274)**	(2,200)
Impairment charge			**(59,125)**	–
Gross (loss)/profit			**(24,974)**	47,018
General and administrative expenses			**(17,788)**	(18,556)
Restructuring costs			**(6,322)**	–
Finance income			**16**	22
Finance expenses			**(32,063)**	(31,301)
Other income			**543**	146
Foreign exchange gain, net			**(1,181)**	266
Loss for the year before taxation			**(81,769)**	(2,405)

The total revenue from reportable segments which comprises the K, S and E Class vessels was US$ 108.7 million (2018: US$ 123.3 million). The Other vessels segment does not constitute a reportable segment per IFRS 8 *Operating Segments*.

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

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

Information about major customers

During the year, three customers (2018: five) 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$ 32.7 million, US$ 24.5 million and US$ 18.4 million (2018: US$ 25.2 million, US$ 23.6 million, US$ 16.7 million, US$ 14.9 million and US$ 13.2 million). The revenue from these customers is attributable to the E-Class vessels, S-Class vessels and K-Class vessels reportable segments.

Geographical segments

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

	2019	2018
	US$'000	US$'000
United Arab Emirates	**35,671**	17,262
Saudi Arabia	**32,476**	54,850
Qatar	**13,411**	9,788
Total - Middle East and North Africa	**81,558**	81,900
United Kingdom	**20,498**	41,435
Rest of Europe	**6,665**	-
Total - Europe	**27,163**	41,435
Worldwide Total	**108,721**	123,335

Impairment losses of US$ 59.1 million were recognised in respect of property, plant and equipment. These

impairment losses were attributable to the following reportable segments:

	2019	2018
	US$'000	US$'000
K-Class vessels	**-**	-
S-Class vessels	**2,845**	-
E-Class vessels	**54,564**	-
Other vessels	**1,716**	-
	59,125	-

	K-Class vessels	**S-Class vessels**	**E-Class vessels**	**Other vessels**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**
2019					
Depreciation charged to cost of sales	**7,317**	**5,776**	**15,541**	**411**	**29,045**
Amortisation charged to cost of sales	**1,434**	**340**	**500**	**-**	**2,274**
Impairment charge	**-**	**2,845**	**54,564**	**1,716**	**59,125**
2018					
Depreciation charged to cost of sales	7,198	5,549	12,642	694	26,083
Amortisation charged to cost of sales	981	67	1,152	-	2,200
Impairment charge	-	-	-	-	-

18 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 2019			Year ended 31 December 2018		
	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	**108,721**	**-**	**108,721**	123,335	–	123,335
Cost of sales						
- Operating expenses	**(43,251)**	**-**	**(43,251)**	(48,034)	–	(48,034)
- Depreciation and amortisation	**(31,319)**	**-**	**(31,319)**	(28,283)	–	(28,283)
- Impairment charge*	**-**	**(59,125)**	**(59,125)**	–	–	–
Gross (loss)/profit	**34,151**	**(59,125)**	**(24,974)**	47,018	–	47,018
General and administrative						
- Depreciation	**(804)**	**-**	**(804)**	(1,229)	–	(1,229)
- Amortisation of IFRS 16 Leases	**(2,889)**	**-**	**(2,889)**	–	–	–
- Other administrative costs	**(14,095)**	**-**	**(14,095)**	(17,327)	–	(17,327)
Restructuring costs**	**-**	**(6,322)**	**(6,322)**	-	-	-
Operating (loss)/profit	**16,363**	**(65,447)**	**(49,084)**	28,462	–	28,462
Finance income	**16**	**-**	**16**	22	–	22
Finance expenses	**(32,063)**	**-**	**(32,063)**	(31,301)	–	(31,301)
Other income	**543**	**-**	**543**	146	–	146
Foreign exchange gain, net	**(1,181)**	**-**	**(1,181)**	266	–	266
Loss before taxation	**(16,322)**	**(65,447)**	**(81,769)**	(2,405)	–	(2,405)
Taxation charge	**(3,696)**	**-**	**(3,696)**	(2,698)	–	(2,698)
Loss for the year	**(20,018)**	**(65,447)**	**(85,465)**	(5,103)	–	(5,103)
Loss attributable to						
Owners of the Company	**(20,331)**	**(65,447)**	**(85,778)**	(6,126)	–	(6,126)
Non-controlling interests	**313**	**-**	**313**	1,023	–	1,023
Loss per share (basic and diluted)	**(5.80)**	**(18.68)**	**(24.48)**	(1.75)	–	(1.75)

	Year ended 31 December 2019			Year ended 31 December 2018		
	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
Supplementary non-statutory information						
Operating (loss)/profit	**16,363**	**(65,447)**	**(49,084)**	28,462	–	28,462
Add: Depreciation and amortisation	**35,012**	**–**	**35,012**	29,512	–	29,512
Non-GAAP EBITDA	**51,375**	**(65,447)**	**(14,072)**	57,974	–	57,974

** The impairment charge on certain vessels and assets has been added back to operating loss to arrive at adjusted loss for the year ended 31 December 2019.*

*** Restructuring costs incurred are not considered part of the regular underlying performance of the business and so have been added back to arrive at adjusted operating loss for the year ended 31 December 2019.*

19 Loss per share

	2019	2018
Loss for the purpose of basic and diluted loss per share being loss for the year attributable to Owners of the Parent (US$'000)	**(85,778)**	(6,126)
Loss for the purpose of adjusted basic and diluted loss per share (US$'000)	**(20,331)**	(6,126)
Weighted average number of shares ('000)	**350,357**	349,895
Weighted average diluted number of shares in issue ('000)	**350,357**	349,895
Basic loss per share (cents)	**(24.48)**	(1.75)
Diluted loss per share (cents)	**(24.48)**	(1.75)
Adjusted loss per share (cents)	**(5.80)**	(1.75)
Adjusted diluted loss per share (cents)	**(5.80)**	(1.75)

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

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

Diluted loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, adjusted for the weighted average effect of share options outstanding during the year. As the Group incurred a loss in 2019, diluted loss per share is the same as loss per share, as the effect of share options is anti-dilutive.

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

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

	2019	2018
	'000s	'000s
Weighted average basic number of shares in issue	**350,357**	349,895
Weighted average diluted number of shares in issue	**350,357**	349,895

20 Revenue

	2019	2018
	US$'000	US$'000
Charter hire	**59,060**	67,218
Lease income	**39,144**	41,659
Messing and accommodation	**7,724**	11,871
Mobilisation and demobilisation	**1,639**	777
Sundry income	**832**	1,611
Maintenance	**322**	199
	108,721	123,335

21 Restructuring costs

During the year, the organisational structure was simplified with a number of management posts removed and not replaced. In addition the operational footprint was reviewed and certain operations in the UK and MENA were closed. Consultancy costs incurred mainly relate to legal advice on restructuring and Board changes.

The restructuring costs charged to profit or loss consist of the following:

	2019	2018
	US$'000	US$'000
Staff costs	4,269	-
Consultancy fees	1,489	-
Business travel	197	-
Office/port closures	367	-
	6,322	-

The total estimated restructuring costs to be incurred are US$ 6.3 million (2018: nil) and these costs were fully provided for in the current period. During the year US$ 4.4 million (2018: nil) was incurred and the remaining provision of US$ 1.9 million (2018: nil) is expected to be fully utilised over the next 12 months.

22 Notes to the consolidated statement of cash flows

	2019	2018
	US$'000	US$'000
Operating activities		
Loss for the year	(85,465)	(5,103)
Adjustments for:		
Depreciation of property, plant and equipment	29,849	27,312
Amortisation of dry docking expenditure	2,275	2,200
Impairment charge	59,125	–
Amortisation of IFRS 16 leases	2,891	–
Income tax expense	3,696	2,698
End of service benefits charge	537	592
End of service benefits paid	(979)	(1,058)
Provision for ECL on 31 December 2017 balances	–	31
Movement in ECL provision during the year	(30)	63
Provision for doubtful debts on trade receivables	14	50
Provision for doubtful debts on accrued revenue	(530)	530
Recovery of doubtful debts	–	(563)
Share options rights charge	227	985
Interest income	(16)	(22)
Interest expense	31,366	30,601
Interest on finance leases	284	–
Gain on disposal of assets	(14)	(6)
Unrealised forex loss	77	-
Other income	(513)	(140)
Amortisation of issue costs	413	700
Cash flow from operating activities before movement in working capital	43,207	58,870
Decrease/(increase) in trade and other receivables	2,875	(22,593)
Increase/(decrease) in trade and other payables	8,320	(4,821)
Cash generated from operations	54,402	31,456

Taxation paid	**(3,058)**	(2,580)
Net cash generated from operating activities	**51,344**	28,876

23 General information

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

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

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

24 Events after the reporting period

Sale of Naashi

In January 2020 the sale of Naashi which had previously been classified as an asset held for sale completed. A gain of US$ 0.3m has been realised upon disposal.

Refinancing update

On 31 March 2020, the Group agreed with its lenders a non-binding term sheet for the restructuring of its existing facilities. This seeks to address both covenant levels and amortisation profile going forward. It would also give the Group access to working capital and bonding facilities. In addition, the Group's banking syndicate granted GMS relief under its existing bank facilities in the form of (i) the rollover of certain loans, (ii) the waiver of applicable financial covenant tests and (iii) the deferral of the principal payments due thereunder, in each case from 31 March 2020 until 30 June 2020. Refer to Going Concern for more details.

COVID-19 and oil price

GMS continues to monitor the Coronavirus pandemic, which is causing macro-economic risks which may impact our performance. There has been an unprecedented drop in global demand for energy and while OPEC+ have already taken steps to mitigate this by agreeing to reduce supply by 10% in April 2020, GMS cannot ignore the current challenges. Like many other businesses, the Group has taken steps to maintain short-term liquidity. The magnitude and financial impact of this remains uncertain at present but could have a significant impact on future earnings, cash flow and financial position.

Non-binding proposal to acquire the Company by Seafox International Limited ('Seafox')

As announced by the Company on 30th April 2020, Seafox has announced that it made a non-binding proposal to the Board of GMS on 26 April 2020 regarding a possible cash offer for the entire issued and to be issued share capital of GMS by a wholly owned subsidiary of Seafox, at a value of US$0.09 per GMS ordinary share (the "Proposal"). The Board is currently considering the Proposal as of the date of this report. The Board has considered the existence of the Proposal in its assessment of going concern and has concluded that it does not alter the nature of the material uncertainties or the Board's conclusion in respect of the Group continuing to be a going concern that have been disclosed further in *Note 2.*

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 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 attributable to equity shareholders of the Company is earnings used for the purpose of basic loss per share adjusted by adding back impairment charges and restructuring costs in 2019. 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 18.

Adjusted EBITDA - represents operating loss after adding back depreciation and amortisation, impairment charges and restructuring costs in 2019. 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 18.

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/(loss) - represents gross profit after adding back impairment charges in 2019. This measure provides additional information on the core profitability of the Group.

Adjusted net loss - represents net loss after adding back impairment charges and restructuring costs in 2019. 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.

EBITDA - represents Earnings before Interest, Tax, Depreciation and Amortisation, which represents operating profit after adding back depreciation and amortisation in 2019. This measure provides additional information of the underlying operating performance of the Group. A reconciliation of this measure is provided in Note 18.

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

	2019 US$ '000	2018 US$ '000
Statutory bank borrow ings	398,502	411,515
Less cash and cash equivalents	(8,404)	(11,046)
	390,098	400,469

Net debt to proforma EBITDA - the ratio of net debt at year end to earnings before interest, tax, depreciation and amortisation, excluding adjusting items, as reported under the terms of our bank facility agreement.

Segment adjusted gross profit/loss - represents gross profit/loss after adding back depreciation, amortisation and impairment charges in 2019. 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 17.

Other definitions

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.
Borrow ing rate	LIBOR plus margin.
Calendar days	takes base days at 365 and only excludes periods of time for construction and delivery time for new ly constructed vessels.
Costs capitalised	represent qualifying costs that are capitalised as part of a cost of the vessel rather than being expensed as they meet the recognition criteria of IAS 16 Property, Plant and Equipment.
EPC	engineering, procurement and construction.
Finance Service Cover	represents the ratio of Adjusted EBITDA to Finance Service (being Net finance charges plus scheduled repayments plus capital payments for finance leases adjusted for voluntary or mandatory prepayments), in respect of that relevant period.
Interest Cover	represents the ratio of Adjusted EBITDA to Net finance charges.
IOC	Independent Oil Company.
LTIR	the lost time injury rate per 200,000 man hours w hich is a measure of the frequency of injuries requiring employee absence from w ork for a period of one or more days
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.
Net cash flow before debt service	the sum of cash generated from operations and investing activities

NOC	National Oil Company.
OSW	Offshore Wind.
Paris Agreement	The Paris Agreement is an agreement within the United Nations Framework Convention on Climate Change, dealing with greenhouse-gas-emissions mitigation, adaptation, and finance, signed in 2016. The central aim to restrict global temperature rise to 2 degrees above pre-industrial levels, and to pursue efforts to limit the increase to 1.5 degrees
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).
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.
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 calendar 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.

[1] The Group presents adjusted results, in addition to the statutory results, as the Directors consider that they provide a useful indication of underlying performance. Adjusted results are also an important measure providing useful information as they form the basis of calculations required for the Group's covenants. In 2019 the adjusting items are a non-cash impairment charge on property, plant and equipment of US$ 59.1 million and restructuring costs of US$ 6.3 million. There were no adjusting items in 2018. For details and further information on Alternative Performance Measures, refer to the Glossary

[2] Guidance of US$45-48 million was issued in August 2019 at the time of replacement of Chief Executive. This was later upgraded to $48 - $50 million in December 2019.

[3] Net cash flow before debt service is the sum of cash generated from operations and investing activities

[4] 3 months to 31st March 2020

[5] Guidance given at the time of leadership change in August 2019 was a range of US$ 45-48 million. Updated guidance given in December 2019 at US$ 48-50 million reflecting additional cost savings delivered.

[6] See Note 3 in the consolidated financial statements

[7] The Group presents adjusted results, in addition to the statutory results, as the Directors consider that they provide a useful indication of underlying performance. Adjusted results are also an important measure providing useful information as they form the basis of calculations required for the Group's covenants. In 2019 the adjusting items are a non-cash impairment charge on property, plant and equipment of US$ 59.1 million and restructuring costs of US$ 6.3 million. There were no adjusting items in 2018. For details and further information on Alternative Performance Measures, refer to the Glossary.

[8] Between three and five years

[9] EBITDA: Earnings Before Interest Tax Depreciation and Amortisation

[10] Defined as net cash flow from operating activities less cash used in investing activities.

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