EXPANDING CAPABILITY THROUGH INNOVATION

GMS
OFFSHORE CONTRACTOR

Gulf Marine Services PLC
Annual Report 2016

LEADING THE WAY IN OFFSHORE SUPPORT SOLUTIONS FOR THE OIL, GAS AND RENEWABLE ENERGY INDUSTRIES

2016 – HIGHLIGHTS

Financial Results Summary

- Revenue was US$ 179.4 million (2015: US$ 219.7 million).
- Adjusted EBITDA* was US$ 106.8 million (2015: US$ 138.5 million). Adjusted EBITDA margin* of 60% (2015: 63%).
- Adjusted net profit after taxation* was US$ 50.7 million (2015: US$ 84.9 million) with net profit of US$ 29.4 million (2015: US$ 75.0 million).
- Adjusted diluted earnings per share* was 14.35 cents (2015: 24.05 cents) with diluted earnings per share of 8.34 cents (2015: 21.25 cents).
- Gross profit was US$ 74.3 million (2015: US$ 132.2 million). Adjusted gross profit* was US$ 95.6 million (2015: US$ 132.2 million).
- Impairment of US$ 21.3 million on non-core assets and a leased vessel.
- Final dividend proposed of 1.20 pence (1.50 cents) per share taking total 2016 dividend payments to 1.61 pence (2.04 cents).
- Net debt* of US$ 362.0 million (2015: US$ 304.3 million), undrawn committed bank facilities of US$ 145.0 million (2015: US$ 225.0 million) at 31 December 2016; deleveraging from Q2 2017 onwards.
- The Group's net leverage ratio* was 3.4 times (2015: 2.2 times) adjusted EBITDA at year end.

Operational Highlights

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

Outlook

- Modern fleet, leading operational experience and expanding technological capability places GMS in a good position to capitalise on the market recovery.

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

The above highlights are based on the Group's adjusted results, which exclude the impairment charge in 2016. A full reconciliation between the adjusted and statutory results is contained in note 6.

* Please refer to the Glossary.

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GMS AT A GLANCE

A WORLD LEADER IN SESVs

Gulf Marine Services is the operator of the world's largest fleet of advanced self-propelled self-elevating support vessels (SESVs).

About us

GMS' assets provide a stable platform for the delivery of a wide range of services performed by the Group's national and international oil company clients and engineering, procurement and construction contractors throughout the lifecycle of offshore oil and gas projects and operators in the renewable energy (wind farm-related) industry. Our vessels are capable of operations in the water depths of up to 80m that are typically found in the Middle East, South East Asia, West Africa and Europe.

We pride ourselves on being at the forefront of technological innovation and construct and maintain our own vessels at our quayside yard in Abu Dhabi. Our extensive new build programme in recent years has made the GMS fleet one of the most sophisticated in the industry.

Our offering

The Group's fleet of 15 SESVs is amongst the youngest in the industry, with an average age of eight years. Our SESVs are four-legged vessels that move independently, with no requirement for anchor handling or tug support. They have a large deck space, crane capacity and accommodation facilities that can be adapted to the requirements of our clients.

These vessels support our 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).

Three classes of vessels serve a range of client needs

Large Class

- 4 units
- Average age: 4 years
- Water depth: 65–80m
- Accommodation for up to 300 people
- Harsh weather capable

Mid-Size Class

- 3 units
- Average age: 2 years
- Water depth: 55m
- Accommodation for up to 300 people
- Harsh weather capable

Small Class

- 8 units
- Average age: 12 years (9 years excl. Naashi)
- Water depth: 45m
- Accommodation for up to 300 people

GMS fleet of SESVs

Large Class Vessels	Year of Delivery
GMS Evolution[i]	2017
GMS Enterprise	2014
GMS Endeavour	2011
GMS Endurance	2010

Mid-Size Class Vessels	Year of Delivery
GMS Sharqi	2016
GMS Scirocco	2015
GMS Shamal	2015

Small Class Vessels	Year of Delivery
Pepper	2015
Kinoa[ii]	2012
Keloa	2009
Kudeta	2008
Kawawa	2006
Kikuyu	2005
Kamikaze	1999
Naashi	1982

(i) GMS Evolution complete with a well workover cantilever will be ready for operations from Q2 2017.
(ii) Kinoa is a leased vessel that the Group has an option to acquire, to which it has not committed.

What differentiates GMS from other operators?

- Pioneering development of Large Class and Mid-Size Class SESVs.
- All our SESVs have four legs – this, combined with our dynamic positioning system on our Large Class and Mid-Size Class vessels, helps us to position our vessels very close to the clients' installations and provides a significantly more stable and reliable platform than three-legged jackup vessels.
- All our SESVs are self-propelled – they do not need costly support vessels for travel and manoeuvres, saving our clients both time and money.
- We design, build and operate our own SESVs. We do not rely on third party shipyards for maintenance and modification.
- We are at the forefront of technological innovation – we use our in-house expertise to enhance the design of our vessels and expand our services so that we can provide flexible, cost-effective, offshore support solutions to our clients.

More information on the above can be found in our business model and strategy on pages 12 to 15.

GMS supports:

- Well intervention services and enhanced oil recovery
- Drilling support, completions and testing
- Platform construction, hookup and commissioning
- Platform restoration and maintenance
- Coil tubing, wireline and snubbing
- Well abandonment and decommissioning
- Wind turbine installation and maintenance
- Offshore wind farm substation commissioning and maintenance

History

GMS was established in Abu Dhabi, UAE in 1977 and in 1982 pioneered the design, build and operation of the first purpose built four-legged self-propelled SESV in the Gulf. In 2007 the Group was acquired by a consortium of investors, led by private equity firm Gulf Capital, and a new senior management team was appointed, headed by the current CEO Duncan Anderson. At this time, the Group was operating three self-propelled SESVs (with a fourth undergoing refurbishment) and had another under construction. During the last nine years, GMS has successfully expanded its fleet and geographical coverage, from a local operation in Abu Dhabi to become the largest operator of self-propelled SESVs in the world. The Group listed on the London Stock Exchange in March 2014.

The current SESV fleet stands at 15 vessels (as at 1 March 2017) as set out in the table adjacent; the Group also has an accommodation barge and two anchor-handling tug support vessels.

The first Large Class vessel, which opened up a market sector where vessels can operate in harsh weather and deeper water environments, was constructed in 2010, with a second delivered in 2011. In 2010 when GMS Endurance was completed, it was initially deployed in Saudi Arabia, whilst the second, GMS Endeavour, was mobilised to the North Sea; both markets were a first for GMS and allowed us to expand our geographic and client footprint beyond the UAE, where we had predominantly been working up to that time. GMS operated entirely in the oil and gas sector until 2011 when we entered the offshore wind power installation market in North West Europe with one of our Large Class vessels, GMS Endeavour. In 2015 GMS secured its first contract in the North Sea supporting decommissioning activities in the offshore oil and gas sector.

In 2014 we embarked on a programme to expand the fleet by a further six SESVs as part of our strategy to widen the scope of our market opportunities and our geographical footprint, and this included the introduction of our new Mid-Size Class vessels which has successfully bridged the gap between our Large and Small Class vessels. All of these have been delivered on time and within budget; the sixth vessel, GMS Evolution, has had a well workover cantilever installed and will be ready for operations from Q2 2017.

Expanding capability through innovation

GMS has been at the forefront of pioneering technological innovation for some 40 years. We have been proactively enhancing the design of our vessels and broadening the range of services we offer in order to provide the most efficient and cost-effective offshore support solutions for our clients.

In 2016 we developed pioneering cantilever systems for our Large Class SESVs. The cantilever systems will allow us to deliver a greater range of services from our SESVs and to carry out work that would otherwise be performed by more expensive non-propelled drilling rigs. More details on the well workover cantilever system installed on GMS Evolution can be found on page 27.

We are continuing to expand our services as part of our strategic plan to apply our ability to innovate technologically to diversify into new markets and to increase our geographical spread.

CHAIRMAN'S STATEMENT

I am very pleased to be introducing Gulf Marine Services' 2016 Annual Report. The Group has delivered a good performance in the year despite the subdued market environment.

As we had anticipated, the sustained low oil price and subsequent pressure on vessel demand and charter rates affected our business, but the management team was able to deliver a satisfactory set of results against this difficult background with adjusted EBITDA for the year of US$ 106.8 million (US$ 138.5 million in 2015).

While much of 2016 was challenging, we are currently seeing an improvement in tender activity, which we expect to be reflected in an increasing backlog in due course. We have secured six new contracts since August, with a total charter period in excess of six years including extension options. Our backlog as at 1 March 2017 stands at US$ 209.2 million (comprising firm and extension options).

I am pleased to report that the Board has recommended a final dividend for the year of 1.20 pence (1.50 cents) per share subject to shareholders' approval at the AGM on 16 May 2017 and this will be paid on 19 May 2017. The dividend per share for 2016 has been held constant and the total dividend for the year is 1.61 pence per share (2.04 cents).

The progress we have made in expanding our services is very promising, particularly the development of our new cantilever system for our Large Class vessels. This new capability will broaden our accessible market and will allow us, in this current cost-sensitive environment, to offer well workover services much more cost-effectively than those provided by traditional jackup drilling rigs. Further information on this new concept is contained in the Operational Review section of this report.

We successfully completed our current new build programme with two new vessels delivered during 2016. We are pleased to see new markets opening up to GMS following the addition to our fleet of Large Class and Mid-Size Class vessels in recent years; further details on this strategic expansion can be found in the CEO's Review. Future development of the fleet is likely to focus on the further extension of our service offering. We will consider fitting cantilevers to our other Large Class vessels once we have proved the concept and identified additional market demand.

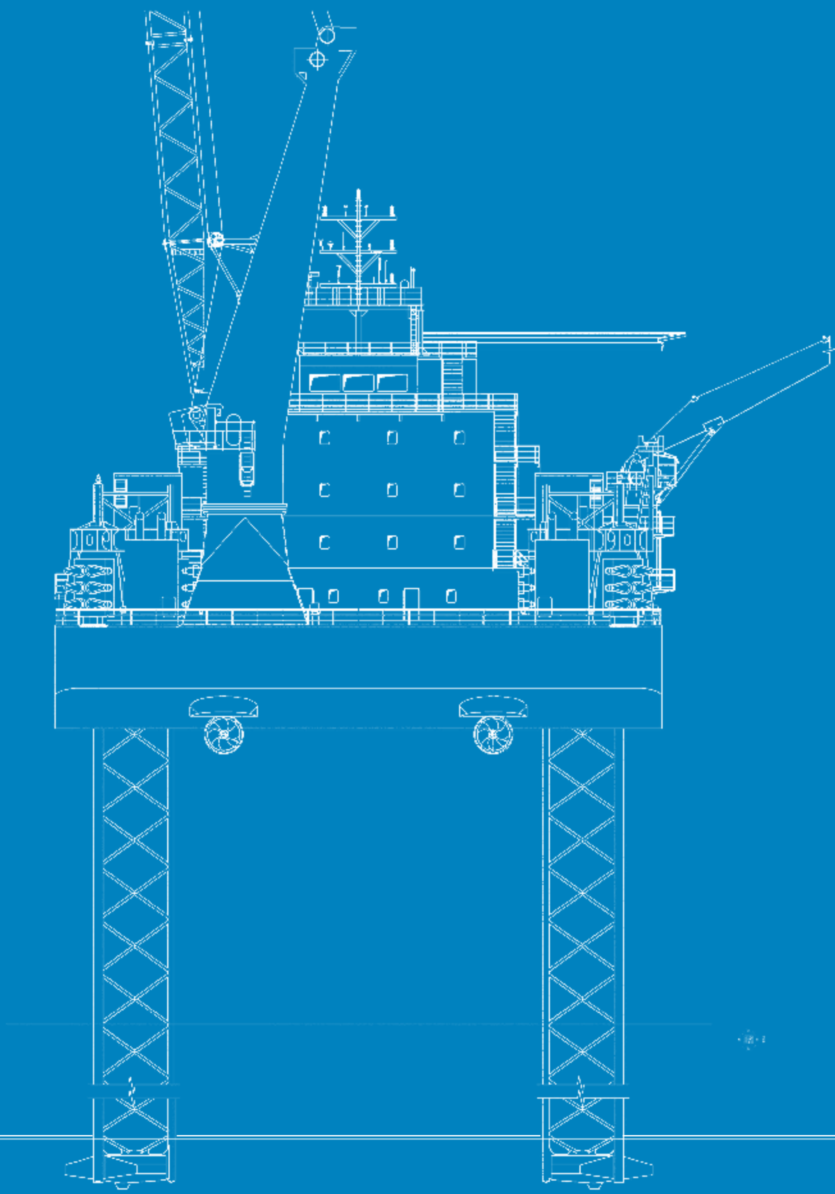
As detailed elsewhere in this report, we maintained high levels of health and safety across the business during a busy year and this will remain a key priority for management. I would like to take this opportunity to thank all our staff, both onshore and offshore, for their continued hard work and dedication to GMS.

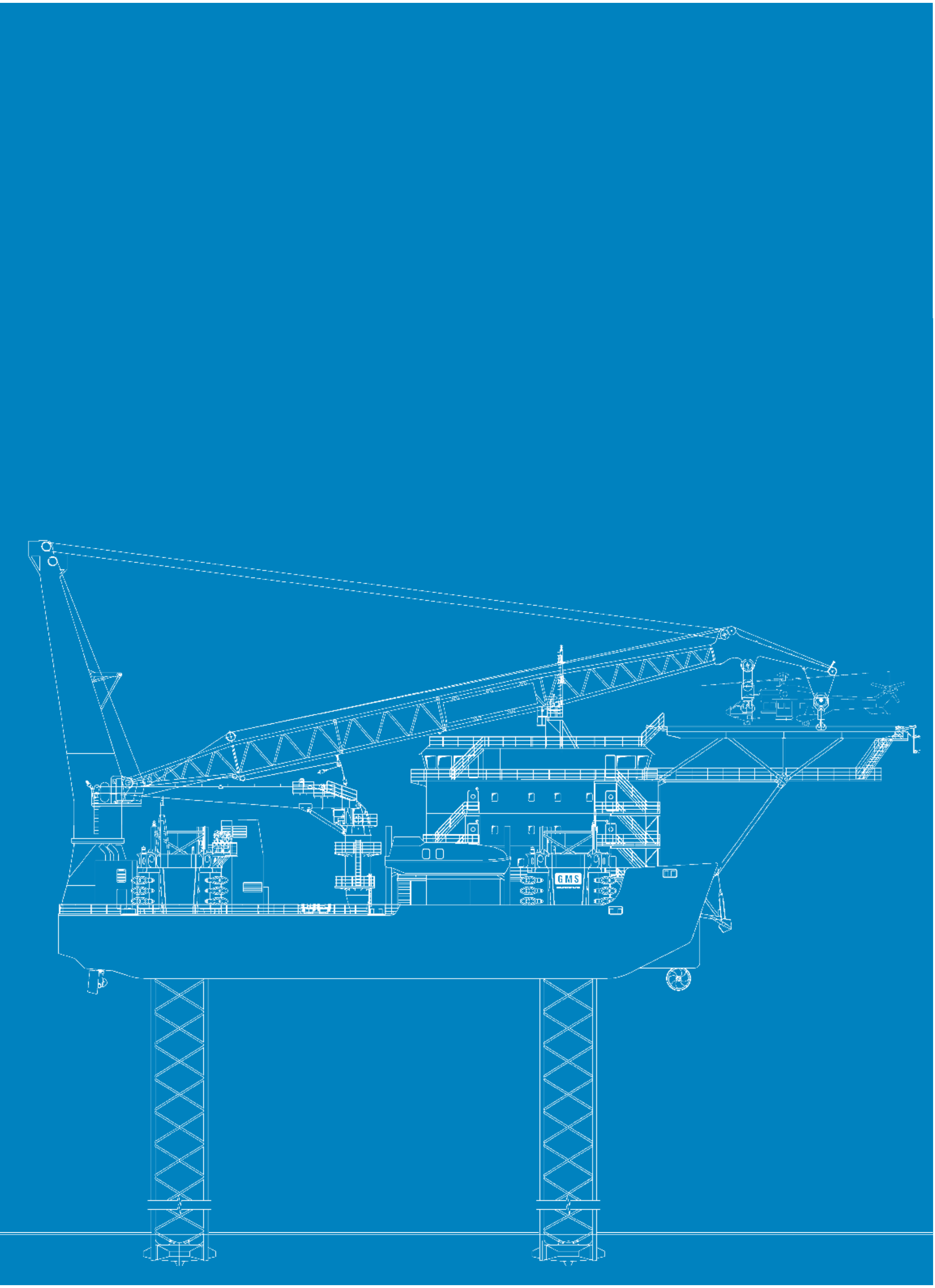
As we announced in December 2016, independent non-executive Director Mike Straughen and non-executive Director Richard Dallas stepped down from the GMS Board with effect from 1 January 2017. On behalf of the Board I would like to thank Mike and Richard, who both joined GMS at the time of our IPO in 2014, for their valuable contributions to the Group. Their wealth of experience and sound stewardship has been much appreciated throughout their time with us.

I remain confident that under the leadership of our CEO Duncan Anderson and his strong management team, GMS will be able to further expand our service offering and maximise new charter opportunities in an improving market.

Simon Heale
Chairman
27 March 2017

STRATEGIC REPORT





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CHIEF EXECUTIVE'S REVIEW

The Group has delivered a solid set of 2016 results in line with expectations for the business against the backdrop of a sustained low oil price environment. This performance continues to show our resilience in the brownfield sector when there are lower customer activity levels.

Clients are more likely to charter our cost-effective, fit-for-purpose and flexible fleet independent of oil price sentiment, which is not typically the case elsewhere in the wider offshore support vessel sector. While we anticipate some of the challenges faced in 2016 will carry forward into the near-term, I am confident that the steps we have taken to help us navigate the industry downturn, including the delivery of significant reductions in our cost base, a competitive business development strategy, together with the strategic expansion of our fleet, will allow us to deliver earnings growth for GMS in due course.

Group financial performance

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

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

Fleet utilisation and order book

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

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

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

Operations

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

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

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

Expansion of services

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

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

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

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

CHIEF EXECUTIVE'S REVIEW CONTINUED

GMS Evolution showcasing the cantilever system at ADIPEC, Abu Dhabi.

Finance

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

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

Our people

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

Market commentary

Middle East

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

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

Europe

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

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

Rest of World

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

Outlook

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

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

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

Duncan Anderson
Chief Executive Officer
27 March 2017

OUR BUSINESS MODEL

CREATING LONG-TERM VALUE FOR OUR SHAREHOLDERS

Our business model is centred on the provision of highly cost-effective and sophisticated self-propelled self-elevating support vessels to our national and international oil company clients and engineering, procurement and construction contractors operating in the offshore energy sector.

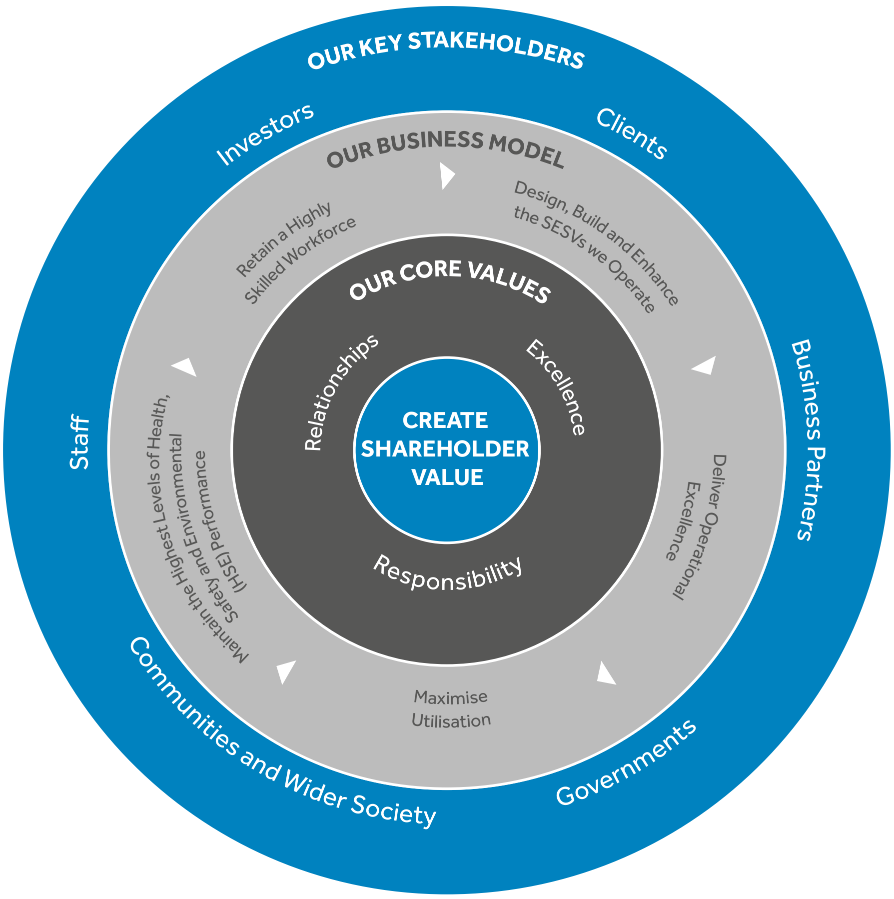
This service enables our clients primarily to carry out maintenance, modification and well services work on their offshore facilities, with each of our vessels providing a stable platform immediately adjacent to the installations. Our vessels provide the storage for materials and equipment necessary for the client's work and accommodation for the workforce; clients can also directly carry out work from on board the vessel itself.

We have developed an integrated approach focused around five key areas in order to deliver this business model.

Design, build and enhance the SESVs we operate

The Group has 40 years' experience in the design and construction of the SESVs we operate and, as both a builder and operator, we are able to work closely with our clients to ensure our vessels meet their expectations in terms of operational efficiency, safety and cost. We are able to apply our in-house expertise and operational experience to develop further the design of our new vessels, incorporating additional features or adaptations that we believe will increase their operating efficiency. We can also respond rapidly to clients' requests for bespoke modifications, which are made to the vessels at minimum cost to our clients. This in-house capability gives us a clear advantage over competitors who have to rely on third party shipbuilders to deliver changes in vessel design and performance.

GMS leads the field in technological innovation and our specialist knowledge and understanding of our clients' operational needs has enabled us to enhance our vessels over the years; this helps us to stay ahead of the competition, increasing our service offering and broadening our market. An example of a major enhancement of our offering is the development in recent years of our pioneering cantilever systems, which has expanded significantly the range of well services we can offer. More details on the development of a cantilever with an integral top drive for our Large Class vessel GMS Evolution can be found on page 27.



The diagram above represents the Group's business. The outer circle represents the environment in which GMS works. Within the diagram, our core values, which are central to everything we do, are captured along with the business model we apply to create shareholder value.

Expanding capability through innovation

Pioneers in the Gulf	Building a fleet for the future		Next phases	
	New Design	New Design	Near-Term	Medium-Term
First purpose-built 4-legged self-propelled SESV **Small Class**	**Large Class self-propelled SESV**	**Mid-Size Class self-propelled SESV**	**First cantilever system with a well workover unit on a self-propelled SESV[1]**	**In-house integrated well services package[2]**
Low cost alternative "workhorse" for multi-move well servicing activities Greater stability than 3-legged vessels and quicker jacking speeds	Larger deck loads and greater water depth *Increased transit speed *Dynamic Positioning systems (DPS) *Increased crane load *Harsh environment capability (opening up new markets)	Same capability as Large-Class, but scaled down to provide lower cost solution/more choice for clients	Increased well intervention services Expansion into a market sector currently served only by drilling rigs, offering GMS a competitive advantage	Bringing in-house specialist services normally sub-contracted, offering a more comprehensive cost-effective service for clients
1982	2010	2015	2017	
	Iterative improvement process on class design			

* Also included with the Mid-Size Class vessels.
1 More detail on our pioneering cantilever system with a well workover unit can be found on page 27.
2 Information on our integrated package of well services can be found on page 24.

Through close collaboration with clients on a project-by-project basis, we offer a cost-effective model that provides maximum efficiency and minimum non-productive time during clients' mobilisations or operations, whilst maintaining the flexible multi-role design as part of the Group's core strategy for high utilisation. More information on the flexibility of our fleet is on pages 15 and 26.

We use our own quayside facility in Abu Dhabi to construct, modify and maintain our vessels, which is advantageous as this enables us to manage closely our construction programme (which can often be more cost-effective than a traditional shipyard) and to gear any fleet expansion or modification according to our view of market demand. .

Deliver operational excellence

We continually strive for excellence in all aspects of our operations. Our skilled employees provide our clients with safe and high quality services from a fleet of sophisticated SESVs. In addition, we are constantly looking for ways to improve our offering through significant market knowledge and experience, technical expertise, client collaboration and by forming strategic business partnerships.

GMS offers a range of benefits to its clients, resulting in greater operational efficiency and significant time and cost savings. All of our SESVs have a rapid jacking capability and have a four-leg design with better stability and jacking speed relative to three-legged SESVs. In addition, all of our SESVs are self-propelled and the Large Class and Mid-Size Class vessel designs include DP2, a dynamic positioning system that enhances the ability of SESVs to safely manoeuvre close to our clients' offshore installations.

These features also allow the vessels to move faster in-field than conventional non-propelled vessels. This offers a significant competitive advantage for multi-move well location work and particularly lends itself to well services projects, whereby our clients can save considerable expenditure using one of our vessels instead of a more expensive drilling rig. We are focused on the efficient management of our fleet, with our in-house maintenance programme ensuring that timely repairs and routine maintenance have minimal effect on operations.

Maximise utilisation

The Group's revenue is principally generated by the charter day rates we charge for each vessel. Our priority is to deliver high vessel utilisation and we target long-term contracts as these provide the benefit of more predictable cash flows.

GMS is predominantly active in the brownfield phase of the oil and gas cycle, mainly supporting long-term oil production, traditionally in maintenance, refurbishment, repair, well services and decommissioning. This means that, while not immune, GMS is less prone to the cyclical nature of the oil industry than many oil service companies exposed to the capex-led exploration and development phases. Contract lengths for our vessels can range from short-term projects of less than a year up to around five

OUR BUSINESS MODEL CONTINUED

years; wherever possible we try to secure long-term contracts that provide good revenue visibility. Contracts normally include both a firm and extension period; the client may exercise the extension as required. The majority of the Group's revenue is currently sourced from the opex-led activities of our clients, who generally will have an ongoing requirement for an SESV.

Maintain the highest levels of Health, Safety and Environmental (HSE) performance

We place the highest priority on managing the risks inherent to our operations and comply with national and international HSE standards.

We employ an integrated management system covering the quality, health, safety and environmental principles and objectives of our business, which is implemented throughout all our offshore and onshore operations. This aims to provide innovative and sustainable solutions to monitor our HSE performance and continuously improve the necessary safeguards to protect our employees and minimise the impact on the environment. This system is fully ISO 9001, ISO 14001 and OHSAS 18001 compliant, is externally audited and accredited, and is continually reviewed to capture best practice changes issued by the International Association of Oil and Gas Producers. We have also developed successfully UK and Dutch sector North Sea Safety Cases for the operation of our Large SESVs in that region. Information on our environmental reporting can be found on page 33.

Health and safety are considered by our clients when assessing bids for tenders and we regard our strong performance in this area as an advantage. We have consistently maintained low levels of lost time injuries (LTIs, meaning an injury that requires one or more days off work). Further details on our HSE performance can be found on page 24.

Retain a highly skilled workforce

GMS operates in an industry where staff mobility rates are relatively high and, as such, we seek to attract and retain high-calibre staff and ensure they are empowered to carry out their duties safely and effectively. We value the skills and experience of our employees and provide an environment, onshore and offshore, where everyone can perform to their full potential and be rewarded for delivering excellence.

The niche nature of our sector means that skilled and capable offshore crew members are traditionally in limited supply (although at times of a low oil price environment there is a wider talent pool available for certain roles) and we therefore pay attention to developing talent from within our organisation. Our Competence Management System, based on recognised industry best practice, has as its purpose the integrated control of those activities within the company that will assure competency of personnel, particularly in safety critical activities.

OUR STRATEGY

Our strategy to create long-term shareholder value in GMS is to focus on maximising the utilisation of our SESV fleet, delivering good operating margins and maintaining a healthy balance sheet. To help us achieve this, we deliver a high quality service to our clients in the offshore energy sector and capitalise on our industry-leading technological advances in order to expand our offering, increase our market share and broaden our geographical diversity.

The Group has been successfully providing cost-effective and flexible offshore support solutions for 40 years and our knowledge and experience of our industry helps us to navigate the challenges of a low oil price environment. Our strategy makes us well-positioned to take advantage of new business opportunities as the market recovers.

Provide vessel flexibility

GMS is at the forefront of technological innovation and has one of the largest and most advanced SESV fleets in the world. Our ability to design, build, maintain and modify our own vessels enables us to have as flexible a fleet as possible and to tailor our services to the needs of our clients more cost-effectively than our competitors. This flexibility, whereby we can rapidly adapt the specifications and capabilities of our vessels, also allows us to target a sophisticated, less commoditised, niche sector where there is less competition for our cost-effective solutions. More information on our vessel flexibility can be found on page 26.

This strategy has been executed by the expansion of our SESV fleet during the period 2014 to the end of 2016, where we delivered on our objective to increase the number of vessels we operate by two-thirds, which also included the introduction of two new classes, and to ensure that our new vessels met the technical specifications we had identified as being especially useful for our clients' operations going forward, and thereby increasing our market opportunities.

Expand our services

We continually look for ways to expand our offering, providing new ideas and enhanced services to meet our clients' needs for increasingly efficient and cost-effective offshore support solutions.

An example of how we progressed this strategy in recent years was the development of pioneering cantilever systems for our vessels that will allow us to deliver a greater range of services from our SESVs, and to carry out work that would otherwise be performed by more expensive non-propelled drilling rigs. A heavy duty cantilever that supports a well workover unit with an integral top drive has been installed on one of our Large Class vessels and is scheduled to be ready for operations in Q2 2017. No other operator has this cantilever capability on an SESV and we expect to roll this out on all our Large Class SESVs as more clients see the value this new concept brings to their businesses. This should increase our competitive advantage in the well services sector and significantly expand our market opportunities. More details on the development of this cantilever system can be found on page 27.

We have also operated in the wind farm sector and, since our SESVs are capable of being adapted to support offshore renewable energy operations, we will seek to maximise the inherent maintenance support opportunities as this market matures over the longer-term.

Seek growth opportunities in existing and new markets

We provide our clients with high quality cost-effective solutions that are ideally suited to their operational needs and this allows us to be considered for a wide range of work opportunities. Our strategy is to continue to build on our strong relationships with our long-standing valued clients, in addition to seeking business in new markets.

We are seeking more contracts to support well intervention, enhanced oil recovery and decommissioning activities going forward, all areas we have identified as presenting further growth potential for GMS. We continue to see demand for our vessels in brownfield oil and gas opex-related work, notably for clients focused on production. Our opex-related contracts, which represent 76% of our operations, still provide the most resilient business when compared to capex-related work, as we focus on maximising vessel utilisation.

As we increase the range of services we offer, we are also well-placed to expand into other markets and where possible, we will seek to have a geographical balance in our operations by not limiting our operations to one country. This strategy should provide a greater diversification of revenue streams in the longer term.

Attract and retain a talented workforce

Our strategy is to attract and retain talented people with the right skills mix, expertise and potential in order to maintain an agile and diverse workforce that can deliver our flexible offshore support services to our clients. Our people are central to the success of our business and we benefit from a highly experienced and motivated workforce. Our reputation for delivering operational excellence and the quality of our people is valued by our clients.

Disciplined cash and balance sheet management

We seek to manage the finances of the business in a prudent manner, looking for sensible opportunities to invest to grow the business.

At times of lower vessel utilisation we aim to achieve the best possible margins. The recent low oil price environment impacted our vessel utilisation as some of our clients deferred maintenance activities. We took steps to reduce our costs through increased operational efficiency and the implementation of cost-cutting initiatives across the business during the year and, following the completion of our new build programme in December 2016, to deleverage going forward. We will continue to focus on delivering operational excellence and disciplined cash and balance sheet management as we fulfil our strategic objectives.

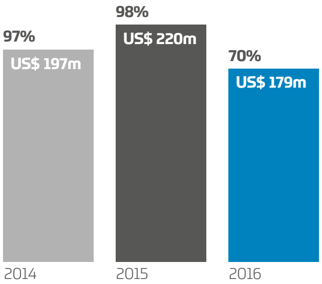
We recognise shareholder value can be created in a number of ways; as the market recovers and this is reflected in results, there should be scope to increase returns to shareholders, including dividends.

KEY PERFORMANCE INDICATORS

The Group uses a number of Key Performance Indicators (KPIs) to measure its performance and review the impact of its business strategy. The financial and operational KPIs adopted are kept under review to ensure that we focus on achieving our strategic objectives whilst addressing the principal risks facing the Group.

KPI

Revenue and utilisation



% – SESV utilisation Bars – Revenue

Description

Revenue reflects the value of operating activities and is derived primarily from the day rates and utilisation levels achieved.

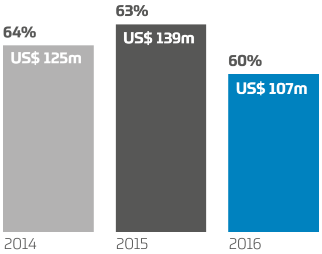
SESV utilisation is the percentage of days SESVs are chartered on a day rate out of total available days.

2016 Performance

The decline in revenue is a result of reduced utilisation rates of SESVs combined with reduced charter rates on certain contracts.

The reduction in utilisation is mainly as a result of the sustained low oil price which affected demand for our fleet.

Adjusted EBITDA and adjusted EBITDA margin



% – Adjusted EBITDA Margin Bars – Adjusted EBITDA

Description

Adjusted EBITDA is a key profit measure and means earnings before interest, tax, depreciation and amortisation, excluding non-operational items.

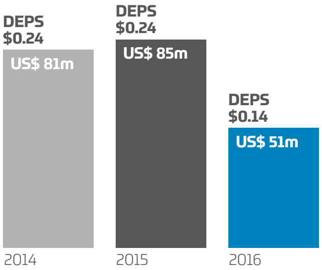
Adjusted EBITDA margin demonstrates our ability to convert revenue into profit.

2016 Performance

Adjusted EBITDA declined year on year mainly reflecting the decrease in revenue during the year.

The adjusted EBITDA margin remained reasonable overall mainly as a result of effective cost management.

Adjusted net income and DEPS



DEPS – Adjusted DEPS Bars – Adjusted Net Income

Description

Adjusted net income measures the net profitability of the business excluding non-operational items.

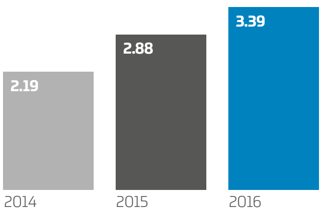
Adjusted DEPS means fully diluted earnings per share, which measures the level of net profit excluding non-operational items per ordinary share outstanding.

2016 Performance

Adjusted net income declined reflecting the decline in revenue as a result of reduced utilisation, and charter rates on certain contracts.

The reduction in adjusted DEPS is in line with the decline in earnings for the year.

Net debt to adjusted EBITDA



Description

Net debt to adjusted EBITDA is the ratio of net debt at year end to earnings before interest, tax, depreciation and amortisation, excluding non-operational items.

This KPI demonstrates the Group's level of borrowing against operating cash flows.

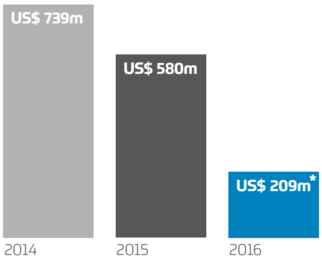
The KPIs shown for 2014 and 2015 included finance lease obligations as determined by the previous banking covenants.

2016 Performance

The net debt to adjusted EBITDA ratio has increased during the year primarily reflecting the reduced EBITDA in the year, combined with increased borrowings as the Group continued to invest in the new build programme.

KPI	Description	2016 Performance

Backlog



Backlog shows the total order book of contracts (comprising firm and option periods) at year end.

The Group uses this KPI as an indication of future revenue and utilisation levels.

* The backlog figure in 2016 includes changes in backlog up to 1 March 2017.

The reduction in backlog reflects some of the fleet being off hire for extended periods during the year and certain clients opting for shorter term contracts than in previous years.

New build programme delivery

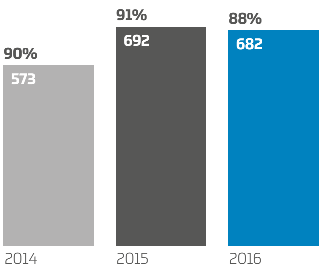
New build programme delivery KPIs measure how successful the Group has been in managing vessel construction projects in terms of cost control and delivery schedule.

Year	New vessels delivered	On schedule	Within budget
2016	Sharqi	✓	✓
2015	Pepper Shamal Scirocco	✓ ✓ ✓	✓ ✓ ✓
2014	Enterprise	✓	✓

Delivery of our Mid-Size Class vessel on schedule and within budget in 2016 demonstrates our continued effective project delivery and cost control.

The delivery of a Large Class vessel Evolution was on time and within budget per the original design plans. The vessel is currently undergoing modifications to install a cantilever system that, once complete, will classify the vessel as a mobile offshore drilling unit, capable of performing a wider range of well intervention work.

Employees



% – Offshore staff retention Bars – Average FTE employees

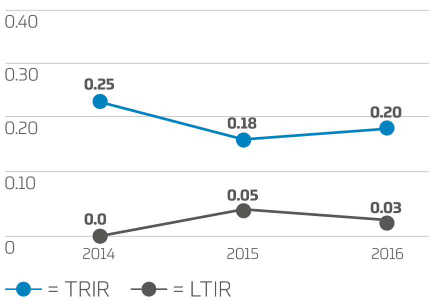
Offshore staff retention shows the percentage of senior officers (masters and chief engineers) who continued to be employees in the period. The percentages shown do not take into account employee redundancies.

Average FTE employees means the average number of full time equivalent employees throughout the year which provides an indication of the Group's service capacity and scale of operations.

The Group's continued focus on retention policies for key personnel has enabled it to hold on to key personnel with a 3% decline in offshore staff retention during the year.

Average FTE employees was lowered as the Group continues to rationalise its headcount in the current oil price environment and as the new build programme neared completion. The number of FTE employees has reduced from 790 at 31 December 2015 to 471 at 31 December 2016.

TRIR & LTIR



TRIR is the total recordable injury rate per 200,000 man hours, which provides a measure of the frequency of recordable injuries.

LTIR is the lost time injury rate per 200,000 man hours which is a measure of the frequency of injuries requiring employee absence from work in the year for a period of one or more days.

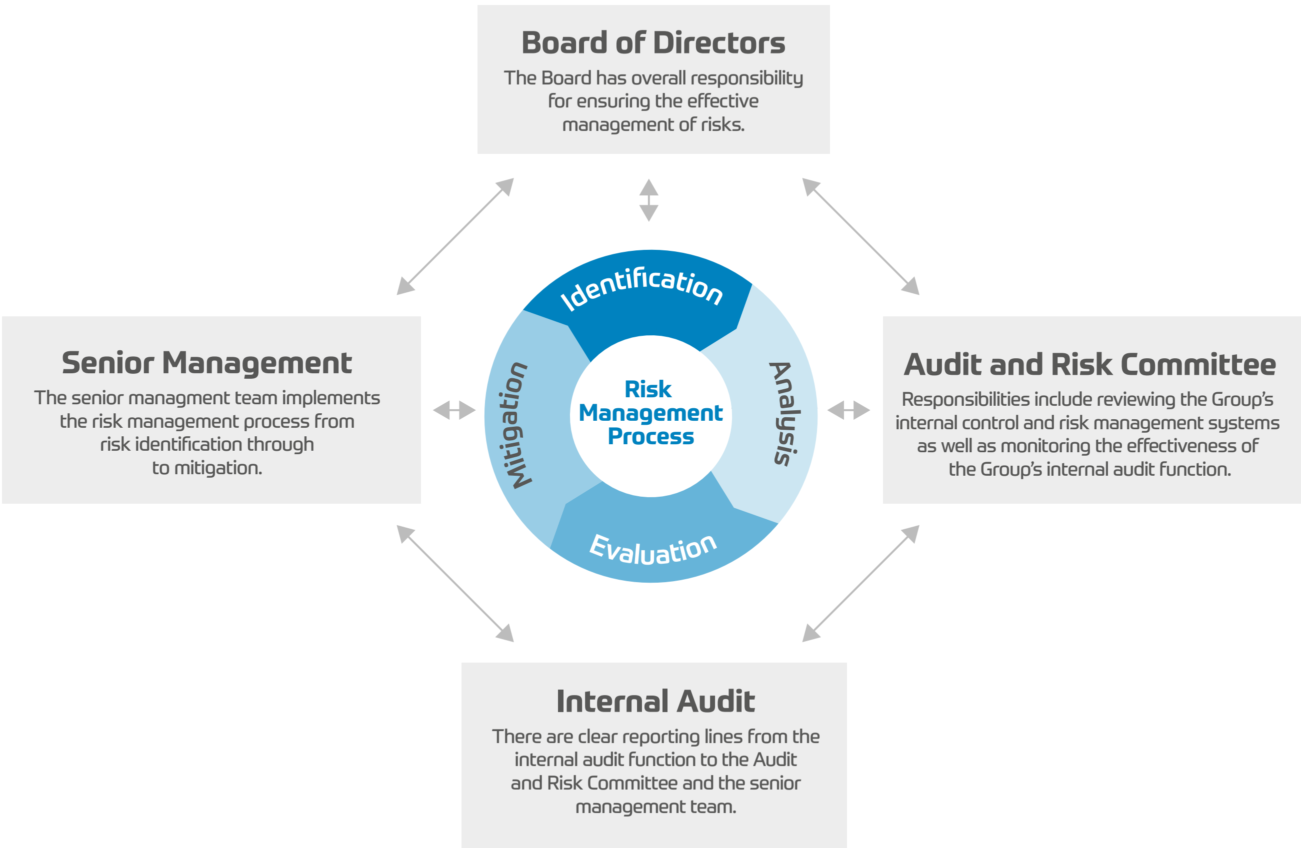
Offshore man hours are calculated based on a 24 hour working period.

The slight increase in the TRIR arises from reduced man hours as the Group incurred fewer recordable incidents in 2016 compared to the previous year.

The decrease in the LTIR illustrates the Group's commitment to delivering the highest standards of safety.

RISK MANAGEMENT

The effective identification, management and mitigation of business risks and opportunities across the Group are a key priority of the business and integral to the successful delivery of the Group's strategic objectives. The Group has a robust risk management system in place to support the identification, analysis, evaluation, mitigation and ongoing monitoring of risks as shown in the risk management framework below.



Business risks across the Group are addressed in a systematic and consistent way through the risk management framework, which has clear lines of reporting and communication to deal with risk management and internal control issues. The Group's process for identifying and managing risks is embedded in its organisational structure, operations and management systems.

The Board has overall responsibility for ensuring that risks are effectively managed. However, the Audit and Risk Committee has been delegated the responsibility for reviewing the effectiveness of the Group's system of internal control and procedures for the identification, assessment, management, mitigation and reporting of risk.

The internal control process starts with identifying risks, compliance matters and other issues through regular reviews carried out by process owners and facilitated by individual departmental risk assessments where the process owners regularly assess the implications and consequences and determine the likelihood of occurrences. The risks associated with the delivery of the strategy, business plan, annual work programme as well as the associated mitigation measures, are maintained in a series of departmental risk registers which are consolidated and reviewed by the senior management team to formulate the Group risk management process. The outcomes of risk identification and control assessments are formally reported to the senior management team and escalated to the Audit and Risk Committee and Board, as appropriate. The Board regularly reviews all key risks facing the Group as part of the Group risk management process which ensures that the Board satisfies the UK Corporate Governance Code requirement to perform a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

The Group's internal audit function has been largely outsourced to a specialist team provided by a reputable third party. All internal audit activity conducted by the internal audit team is done under the direction and leadership of the Finance Director, who reports to the Chief Financial Officer, but the team also has an independent reporting line to the Chairman of the Audit and Risk Committee. In the light of the internal auditors' recommendations, Management agrees and implements corrective action plans, which are tracked to completion by the internal audit team, with the results reported regularly to the Audit and Risk Committee and the Board.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group in the short to medium term are set out below, together with the principal mitigation measures. These risks are not intended to be an exhaustive analysis of all risks that may arise in the ordinary course of business or otherwise.

Key: ▲ Risk has increased since 2015 ⇔ No material change in risk since 2015 ▼ Risk has reduced since 2015

Risk	Risk profile	Assessment of change in risk	Mitigation, monitoring and assurance
Strategic	The macroeconomic environment influences the demand for our services. A sustained period of low oil prices could affect the demand for the Group's oil extraction support services. This could lead to lower utilisation or lower charter day rates causing profit margins to fall. Significant changes in the market-place as a result of the actions of our competitors or the entrance of new competitors may jeopardise our market share or adversely affect utilisation levels or charter day rate levels achieved. Over-exposure to any one geographic market or loss of a major client or a reduction in activity of a major client could impact our performance.	▲	**Construction and modification flexibility for clients** Our vessels are built to be as flexible as possible allowing us to compete for a wide share of the market, helping us to maximise utilisation levels and charter day rates. The Group is also able to more easily modify assets in its own yard to satisfy client requirements where necessary. **Focus on low cost of production areas such as MENA** A substantial proportion of the Group's client base and revenues are generated in the MENA region, where the cost of oil production is generally lower than in other parts of the world. **Growth and expansion** The Group has expansion of its geographical footprint as one of its long-term strategic aims as it seeks to diversify into other markets. Where possible we strive to have a geographical balance of our operations by not limiting our portfolio of clients to one country. In addition we are further expanding the range of well activities that our vessels can perform. The Group recently developed the cantilever concept for its Large Class vessels. It is anticipated that this concept should significantly expand our service offering, allowing the Group to compete for a greater range of well services work. It remains the intention of the Group to further expand the fleet, subject to future market demand. **Opex v capex** The Group provides cost-effective services mainly in the opex phase of oil companies' budgets, supporting long-term oil production which historically has tended to be less cyclical than capex phase work. **Cost management** The Group is focused on controlling costs in order to help achieve appropriate profit margins whilst having the ability to offer competitive pricing to clients.
Commercial	The reliance of the Group on a limited number of blue chip clients may expose us to losses in the event of client relationship disruptions. The Group may not be able to win new contracts or retain existing contracts including clients not opting to exercise contractual option periods because of the actions of competitors. This could lead to lower vessel utilisation or lower charter day rates causing profit margins to fall. The Group may not be able to secure long-term contracts or certain clients could cancel contracts, which may lead to commercial downtime between contracts and lower overall average utilisation.	▲	**Flexibility and innovation** We seek to continually improve our offering through innovation including new vessel designs and specification improvements by responding directly to client feedback. **Market knowledge and operational expertise** The Group has a clear record of established long-term relationships in the MENA region and North West Europe, which helps provide a clear understanding of our clients' requirements and operating standards. We believe that the Group continues to have a competitive edge over most other alternative providers of vessels through our operational expertise and the high quality specifications of our offshore solutions. **Tender approach** We compete in tenders for all vessels nearing the end of their firm contracts, ensuring that, if a client chooses not to exercise their option, other opportunities should not be missed. The Group continually monitors and tracks its pipeline of new contract opportunities. When negotiating contracts, where possible, the Group seeks to exclude client termination rights. In addition, our robust operating standards result in minimal downtime which helps ensure that clients are not given cause to cancel contracts through non-performance.

RISK MANAGEMENT CONTINUED

Risk	Risk profile	Assessment of change in risk	Mitigation, monitoring and assurance
Financial	Macro and micro economic events, such as a sustained low oil price, may impact our ability to raise finance, achieve forecast, effectively manage our working capital and service our financial obligations. A sustained reduction in charter day rates and/or utilisation levels could lead to a breach in certain debt covenants. Failure of the Group to service its debts and comply with debt covenants could result in negative repercussions for the Group including restriction of funding. The Group may use external funding in financing major projects, and inability to obtain the required funding may hamper the successful undertaking of capital-intensive projects.	⇔	**Key performance indicators** Transparent KPIs are used for reporting to track progress. The KPIs are reviewed regularly to ensure Management has all the necessary information to make timely financial decisions. **Availability of funding** The Group has a committed banking facility in place that provides access to funding and now that the current new build programme is coming to an end, the Group is forecast to begin deleveraging. **Policies and procedures** We adhere to Group-wide financial and accounting policies which underpin our approach to risk management. **Management and Board reporting** The Management and the Board regularly monitor the Group's debt obligations and funding requirements and seek to ensure that sufficient funds are always in place to meet the needs of the business as well as maintaining adequate headroom over debt covenants thus minimising the risk of breach.
Health, Safety, Security, Environment and Quality	The Group may suffer commercial and reputational damage as a result of an environmental or safety incident involving our employees, visitors or contractors. Our operations have an inherent safety risk due to our offshore operations. We have a fundamental obligation to protect our people and recognise the implications of poor safety procedures.	⇔	**Safety awareness** Safety and assurance continues to be a top priority and is underpinned by our HSSEQ management system and strong safety-focused culture. Management ensures appropriate safety practices and procedures, disaster recovery plans and the insurance coverage of all commercial contracts are in place both prior to acceptance and during contract delivery. **Training and compliance** Our employees undergo continuous training and sensitisation on operational best practices. **Scheduled maintenance** The Group follows regular maintenance schedules on its vessels and the condition of the vessels is consistently monitored.
Compliance and regulation	Non-compliance with anti-bribery and corruption regulations could damage stakeholder relations and lead to reputational and financial loss. Failure to appropriately identify and comply with laws and regulations and other regulatory statutes in new and existing markets could lead to regulatory investigations.	⇔	**Code of conduct** The Group has a Code of Conduct with which employees are required to comply when conducting business on behalf of the Group; this includes anti-bribery and corruption policies. **Due diligence** Prior to venturing into new markets, the Group performs substantial due diligence work and obtains an understanding of the governing laws and regulations. Group legal and external counsel support are utilised as necessary.
Operational	There is a risk that the Group's assets may not be fit for purpose or may fail to operate in the manner intended by Management. Failure to deliver the expected operational performance could result in reputational damage, litigation, reduced profit margins or loss of clients. Changes in the political regimes, civil and political unrest or sanctions in the jurisdictions in which we operate could adversely affect our operations.	⇔	**Vessel monitoring** The Group constantly monitors the condition of the vessels and other equipment which undergo mandatory dry docking within the specified timeframes. The Group has policies and procedures in place such as the Planned Maintenance System to ensure that the vessels undergo regular preventative maintenance. **Emergency plans and insurance** For all our major assets and areas of operation, the Group maintains emergency preparedness plans. We regularly review the insurance coverage over the Group's assets to ensure adequate cover is in place. **Constant review** The Group remains vigilant to potential changes and risks and may engage with governments and legal counsel to ensure a comprehensive view of our stakeholders is presented. The Group constantly monitors the ever-changing political landscape in the regions that are considered volatile or unpredictable.

Risk	Risk profile	Assessment of change in risk	Mitigation, monitoring and assurance
People	The Group's success depends on our ability to attract and retain sufficiently qualified and experienced personnel, particularly at senior management levels. Failure to attract, develop and retain sufficient competent crew to support our clients' needs could result in operational issues on-board vessels.	↔	**Succession planning** The Group maintains detailed management succession plans for key personnel which are monitored by the Group HR team. The current macroeconomic environment has resulted in a wider external talent pool available for certain roles within the Group. As the Group's new build programme has neared completion, key technical personnel who were involved in vessel construction projects, have been integrated within the Operations Department to assist in vessel modification and maintenance projects. This enables the Group to retain key technical skills and expertise in our fleet of high quality vessels. **Learning and development** The Group is committed to providing bespoke training and development paths for key personnel and invests heavily in learning and development with a major focus on regular training for our safety critical, senior operational and management roles. **Competitive remuneration packages** The Group has a competitive remuneration structure that aims to attract, motivate and retain suitably qualified personnel through performance-based reward practices.
Investments	Delays in completion or errors in assessing the impact of new strategic expansion projects could result in decreased margins and market share.	▼	**Board oversight** The Board has oversight of approving and monitoring strategic projects. **Project management** Extensive project management controls and processes are adhered to throughout project life cycles.

Other considerations

The Directors have given consideration to other risks that the Group may be exposed to including risks associated with climate change, cybersecurity, and the 2016 UK referendum in which a majority of the UK voted to exit the European Union. The Directors concluded that whilst these risks exist, overall they were not considered to be material and therefore did not constitute one of the Group's principal risks and uncertainties.

Longer-term viability

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a three year period to December 2019. The Board believes that a viability assessment for a period of three years is appropriate for the following reasons:

(i) it aligns with the Group's annual strategic plan which covers three years;
(ii) the Company has a reasonable ability to forecast its likely contracting opportunities and successes up to three years;
(iii) a longer period of assessment is not considered appropriate given that a proportion of the variability in plans and budgets for the Company is influenced by sentiment surrounding oil price.

The Board reviews annually and on a rolling basis the strategic plan for the business which Management progressively implements. The Group's business model has proven to be resilient over the long term in previous down turns in the macroeconomic environment.

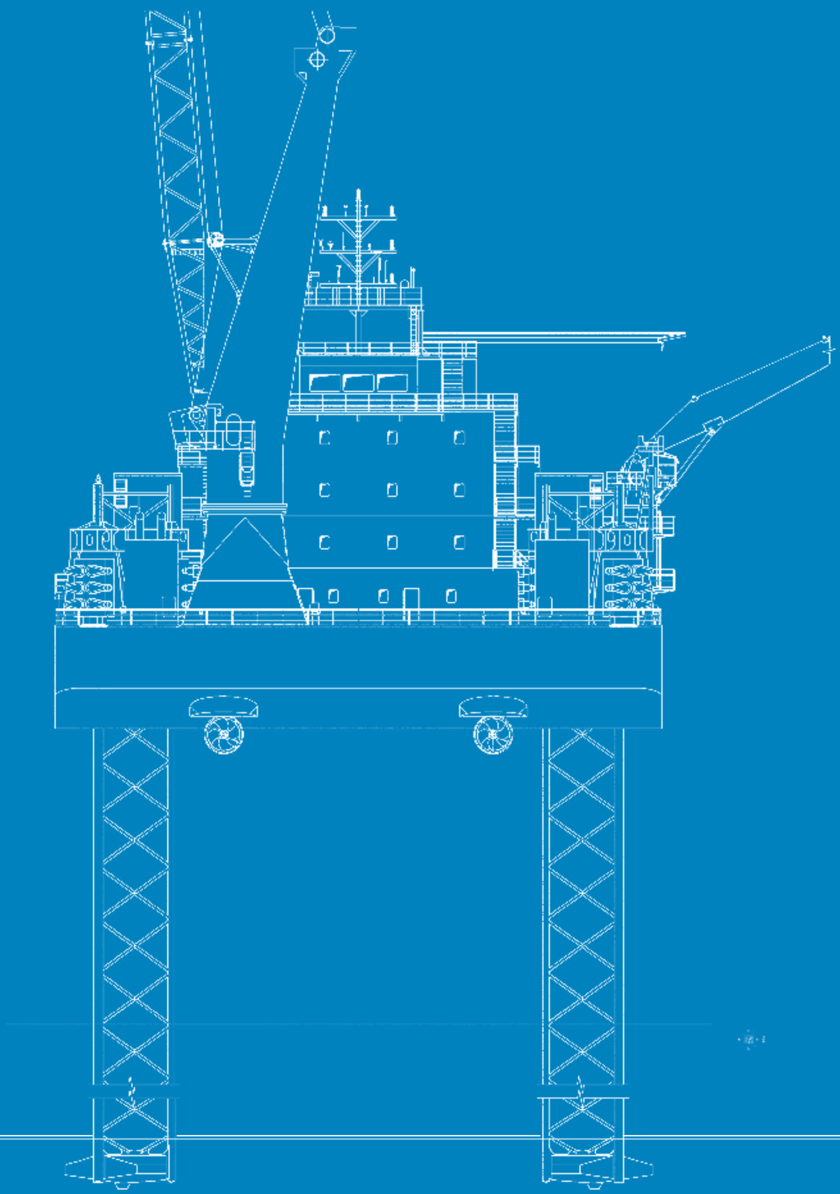
The viability assessment takes into account expected future tender activity levels and the Group's anticipated success in winning contracts. There are inevitably uncertainties attached to this assessment, and the Group's business model was stress tested against a range of severe but possible adverse scenarios both individually and in combination to validate the robustness of the model and financial position (including consideration of compliance with banking covenants and loan repayment commitments) together with the effectiveness of mitigating actions available to the business. The assessment took into consideration the potential impact that the Group's principal risks and uncertainties detailed above on pages 19 to 21, could have on the Group's business model, liquidity and future performance over the review period. As part of its assessment the Directors have also considered the robust risk management framework in place to monitor and mitigate its exposure to the principal risks. The scenario analysis performed specifically considered the potential impact on our business of a sustained period of low oil prices, primarily through reducing revenues and cash inflows by incorporating prolonged reductions in charter day rates and utilisation levels.

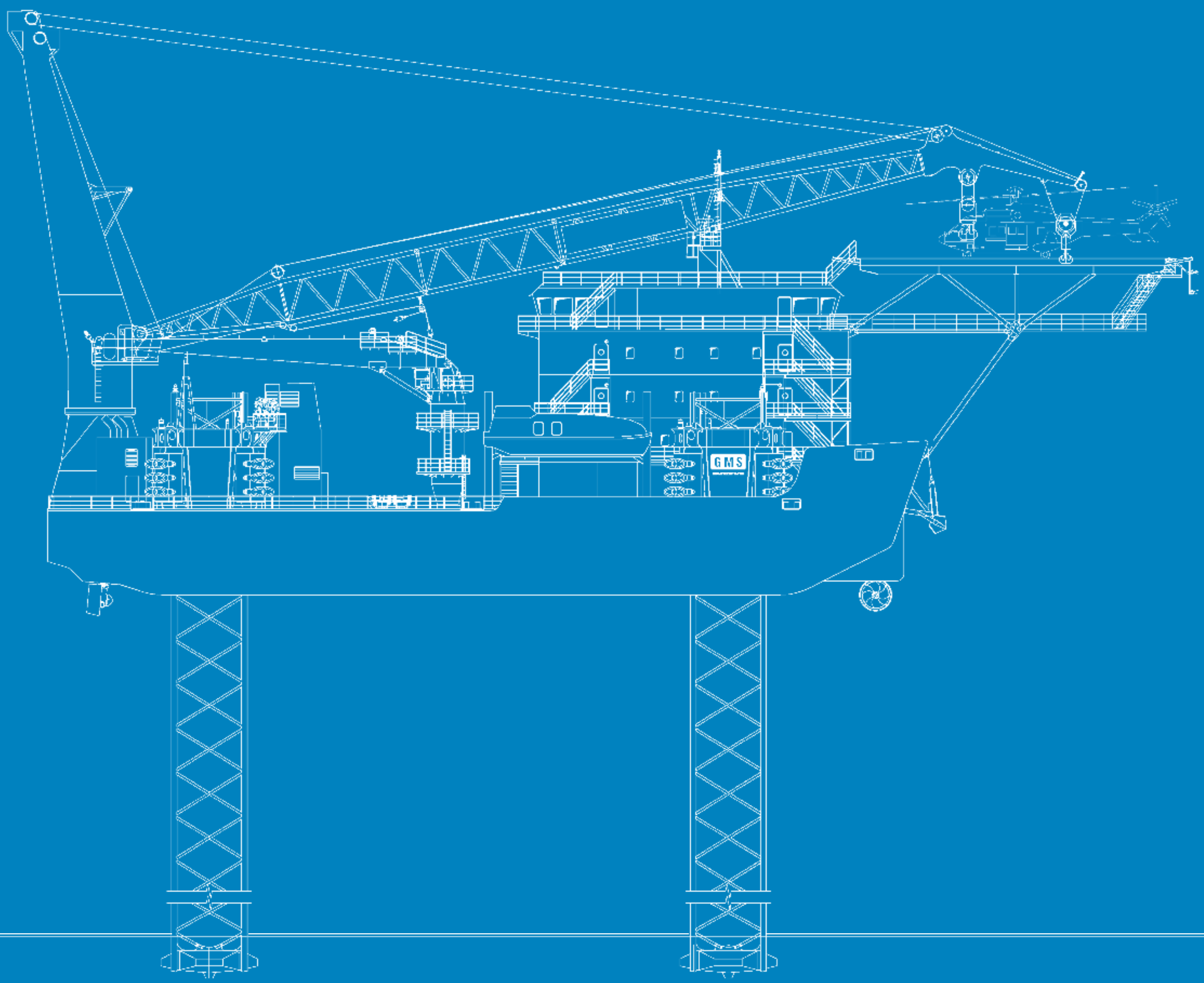
Based on the results of this analysis the Board has concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of the assessment.

Information contained within the Introduction on pages 1 to 5 and the Performance section on pages 24 to 33 of this document forms part of the Strategic Report by reference.

Duncan Anderson
Chief Executive Officer
27 March 2017

PERFORMANCE




GMS

OPERATIONAL REVIEW

Operations

The Group's fleet of 15 self-propelled SESVs is the largest in the world, with the majority of vessels located in the Middle East and two in Europe. The fleet is also one of the youngest in the industry, with an average age of just eight years. (This is based on four years for the Large Class vessels, two years for the Mid-Size Class and 12 years for the Small Class.) Our modern fleet has the benefit of being technologically advanced, which allows us to offer more cost-effective deployment and substantial operational efficiencies than are typically available from older and less sophisticated vessels.

SESVs' charter rates, utilisation and operating costs

As we had anticipated, the utilisation of our SESV fleet in H2 2016 was affected by the sustained low oil price environment as contracts for certain vessels expired and as we transitioned from old to new contracts. The utilisation rate for the year was 70% (98% in 2015), which is still healthy compared to the levels experienced in both the wider offshore support vessel and drilling rig sectors. Charter rates, as shown in the table below also sustained some downward pressure. Technical and operational uptime for contracted vessels for the year was 100%. Operational activity during the year was predominantly in the maintenance, accommodation and well servicing sector with 197 rig moves (representing 304 jacking cycles) and 123 client wells serviced without incident.

GMS' business is heavily weighted towards clients' opex-based activities, with oil and gas opex-led activities accounting for 76% and capex-led activities 24%.

The Group continues to maintain a very high focus on asset integrity and marine assurance. We normally warm stack our off-hire SESVs, meaning the vessel retains a minimal crew and all systems are maintained in readiness for rapid deployment, according to anticipated contract starts. We are able to warm stack our vessels in MENA at our construction and maintenance yard in Abu Dhabi at a much lower cost, around US$ 2,000 per vessel per day, than our peers who rely on third party shipyards and ports. Cold stacking our vessels costs approximately 50% less than warm stacking.

As discussed in the 2016 Interim Results, a series of cost-saving initiatives has been implemented during the year, including efficiencies in the supply chain, quayside leasing expenditure, crew costs and overhead base (the latter two primarily through reorganisation and rationalisation). Further information on this can be found in the Financial Review on page 28.

HSSEQ

Health, safety and the environment continue to be our top priority. The total number of man hours worked was 6.0 million in 2016 (7.7 million man hours in 2015). This was a very high level of activity as our new build programme was still underway during the year; as this has now been completed the man hours are expected to reduce significantly in future. The total recordable injury rate* was 0.20 in 2016. Unfortunately, there was one lost time injury* (LTI) during the period (two LTIs were sustained in 2015). We are committed to providing all our personnel with a quality and safe working environment at all times whilst under our duty of care and will maintain our focus on HSE, with zero incidents continuing to be the target.

In-house capability to build, maintain and enhance the SESVs we operate

The SESV new build programme, commenced in 2014 to expand the fleet by a further six vessels, was completed on time and within budget by the end of 2016. The Mid-Size Class GMS Sharqi was delivered in Q1 2016. The Large Class GMS Evolution was completed in Q4 2016, with further work on the installation and testing of a cantilever system on the vessel (as described below and on page 27) continuing into Q2 2017. Future development of the fleet is likely to focus on the further extension of our service offering. The Group continues to benefit from the competitive advantage that our well-established in-house facility provides, which allows us to maintain, modify and enhance our vessels much more cost-effectively than our peers who rely on third party shipyards.

Expansion of well services

GMS' technical and operations departments have been researching pioneering cantilever systems for our Large Class SESVs in recent years as part of our strategy to expand our well services capabilities. In 2016 we designed and developed, in partnership with Dwellop A.S., a cantilever system with a well workover unit complete with a top drive for GMS Evolution. This system, which is anticipated to be ready for operations from Q2 2017 following the completion of sea trials, will allow us to provide a greater range of services from the vessel and to carry out work that would otherwise be performed by more expensive and less efficient

* Please refer to the Glossary.

The table below provides a summary of our key performance metrics.

	Small Class	
	2016	2015
Average daily charter rate excluding hotel services (US$'000s)	**35**	40
Utilisation	**64%**	96%
Average daily vessel operating costs (US$'000s)	**7**	10

	Mid-Size Class	
	2016	2015
Average daily charter rate excluding hotel services (US$'000s)	**51**	54
Utilisation	**61%**	100%
Average daily vessel operating costs (US$'000s)	**14**	17

	Large Class	
	2016	2015
Average daily charter rate excluding hotel services (US$'000s)	**64**	82
Utilisation	**91%**	100%
Average daily vessel operating costs (US$'000s)	**14**	21

The Group has a secured backlog of US$ 209.2 million as at 1 March 2017.

non-propelled jackup drilling rigs. Details on the development of the cantilever for GMS Evolution can be found on pages 27.

In order to support GMS Evolution's enhanced well services capability, we have employed well operations onshore and offshore personnel and developed a comprehensive Well Intervention Management System that interfaces with our existing Integrated Management System. We have also enhanced our operational expertise in order to deliver the service to our clients by partnering with Odfjell, a leading drilling entity with the necessary specialist knowledge to operate the drilling and workover equipment.

One of the well servicing activities carried out from our vessels is downhole pumping and cementing and we have traditionally delivered this service for our client by sub-contracting highly skilled petroleum engineers who would join our crew for the duration of the work. We identified an opportunity to bring this activity in-house and brought in our own specialist personnel, developed a management system and on board operating and maintenance procedures that have been fully endorsed by our clients and purchased new equipment consisting of heavy-duty pumps, tanks and batch mixers. We provided this service in 2016 for the first time and have had excellent feedback from our clients. We not only lowered our cost base through this initiative but, very importantly, we increased the quality of our service provision and moved GMS closer to well operations.

It is our strategic ambition to continually innovate and seek to differentiate our service provision from our competitors, and one of the ways we can do this is by offering our clients a more extensive and integrated package of well intervention services across our SESV fleet. It is our intention over the medium-term to bring in-house more of the ancillary services we normally sub-contract (as we have done with pumping and cementing, and could do for coil tubing and wireline provision for example) and to partner with other specialist providers so that we can offer the widest possible range of services, all of which will be managed by GMS. This comprehensive offering will maximise operational efficiency and should help us to remain highly cost-effective for our clients.

Markets

Middle East

The prolonged low oil price environment has shifted focus amongst our key regional customers away from increasing production targets to reduced operating costs. The extent to which this cost focus affected GMS varied amongst our clients and, in certain instances, this resulted in a number of contracts being terminated early or extension options not exercised. In other cases we have successfully renegotiated contracts at lower

day rates but maintained the term of the contract. Oil prices are recovering and we have been seeing an increase in the number of tender opportunities. It is anticipated that most, if not all, of the work lost due to cancellations or the non-renewal of contracts in 2016 will be re-tendered in 2017, as our clients' again focus on production targets.

We are continuing to advise our clients in the region about the cost-effective benefits that our new SESV well intervention cantilever and top drive concept will deliver. We have identified specific opportunities, such as change out of electric submersible pumps or well completions, where the cantilever system will allow us to perform additional well intervention operations more efficiently than currently available from drilling rig operators.

Europe

Despite the challenges of the low oil price, utilisation in the European market has been maintained, albeit at lower day rates than 2015. A charter ending at the beginning of 2017 has been successfully replaced by medium-term work for a new blue chip client for GMS. Decommissioning remains a significant source of potential demand for GMS services in the North Sea, although the competing strategic and economic priorities of stakeholders in these offshore assets has meant that the scale of actual decommissioning progress is not yet as advanced as previously anticipated. GMS continues to engage with clients on developing decommissioning opportunities as our new cantilever designs for our Large Class SESVs lend themselves particularly well to the cost-effective plug and abandonment of old wells, a key step in the decommissioning process.

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

Rest of World

A key step in developing our services in markets outside the Middle East and Europe was the establishment of our South East Asia office in Kuala Lumpur, Malaysia. This office will continue to develop opportunities within those regional countries where factors such as water depth and ageing oil producing infrastructure lend themselves particularly to the use of our SESVs. This market has previously been covered remotely using local partners and agents. Having our own regional presence working continuously and directly with clients alongside our partners will better position GMS for future geographic diversification.

West Africa and Mexico, other markets that have potential for the employment of our SESVs, have produced very few tender opportunities in 2016. The Nigerian market for SESV services continues in a state of flux; this is due to both the oil price pressures and, on the supply side, the potential sale of the largest but ageing fleet in the West Africa region.

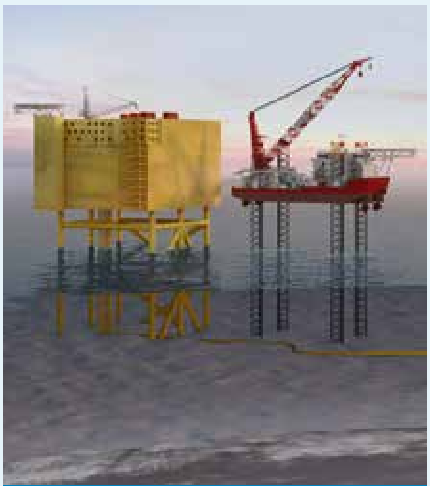
Summary

GMS achieved a respectable level of utilisation for its SESV fleet in 2016 despite the backdrop of a very subdued market. Operationally, we performed well with strong technical uptime and we took some significant steps forward as we progress our strategy to increase our services and widen our market share. There are clear signs of an improving commercial environment and we remain confident that GMS is well-positioned to maximise opportunities as the market recovers.

ADVANCED DESIGN AND FLEXIBILITY – BENEFITS OF THE GMS FLEET

Our technological expertise and operational experience enable us to provide our clients with a flexible fleet and enhanced services, which helps us to maximise vessel utilisation.

Topside maintenance



Commissioning and accommodation

Well intervention

The Group's SESVs are chartered to a high quality worldwide client base and are used as customised work platforms in the offshore oil, gas and renewable energy sectors.

The vessels are operated by skilled employees and support our 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) and offshore oil and gas platform installation and decommissioning, and offshore wind turbine installation (which are capex-led activities).

Our fleet of young and technically advanced SESVs has a non-commoditised nature that allows competition against a diverse range of marine assets, including drilling rigs, accommodation service barges (non-propelled) and floating construction vessels. The SESVs are four-legged vessels that move independently and have a large deck space, crane capacity and accommodation facilities that can be readily adapted to the requirements of the Group's clients.

Our four-legged design represents a significant competitive advantage over the more traditional non-propelled, three-legged barges available in the market, both in terms of speed in jacking and safety. Our SESVs are all self-propelled. The Large Class and Mid-Size Class vessel designs include DP2, a dynamic positioning system that enhances the ability of the SESVs to safely manoeuvre close to clients' offshore installations. These features all enable an increase in the speed of movement around a client's field of assets and remove the need for costly support vessels.

Some of the specific benefits of our fleet are:

- Well intervention activities that require frequent changes in location are ideally suited to our self-propelled SESVs, which do not need costly support vessels.
- The ability to relocate quickly within small weather windows allows our clients to work more efficiently. This in turn provides them with an immediate benefit through increased production as a result of the intervention performed.
- Accommodation can be installed, for 150 to 300 persons, along with multiple access routes to the client facility. This allows clients to simultaneously open up multiple work fronts and achieve high levels of productivity.
- The high-capacity cranes are able to support construction and commissioning activities offshore where specialist crane barges would have previously been required, in addition to the accommodation barge.
- Cantilever systems fitted to the decks of our SESVs will allow us to increase significantly the well intervention activities that can be carried out from our vessels, to include operations that have traditionally been performed by more expensive non-propelled drilling rigs. Further information on the cantilever system is on page 27.
- The large stable deck space on our vessels allows clients to carry out work in a safe, fixed environment.

ENHANCING OUR OFFERING

An important part of our strategy is to combine the technological expertise we have in designing and building our own vessels with the operational experience we acquire by operating them for our clients, in order to continually find ways to enhance our offering and maintain a lead on our competitors.

An example of a major enhancement to our offering has been the successful development of a pioneering well intervention cantilever system for our Large Class SESVs. This, designed in partnership with Dwellop A.S.[1], will allow us to provide a greater range of services from our vessels and to carry out work that would otherwise have been performed by more expensive non-propelled drilling rigs.

In November 2016 we unveiled at ADIPEC[2], the international oil and gas exhibition in Abu Dhabi, our first heavy duty well intervention cantilever, fitted to our new build Large Class vessel GMS Evolution. This cantilever supports a well workover unit with an integral top drive and is an industry first; no other company offers this capability from an SESV. This is now in its final development phase and is scheduled to be ready for operations from Q2 2017 following the successful completion of sea trials.

The benefits of an SESV workover cantilever system – GMS Evolution

Equipped with its well intervention cantilever and top drive, GMS Evolution is able to supplant higher cost non-propelled drilling rigs on workover projects by offering greater operational efficiencies, quicker servicing times and lower costs. This complete system allows us to perform operations such as plugging and abandonment, light drilling, change out of electric submersible pumps and completions.

Numerous wells requiring workover and intervention are supported and accessed through a well head tower or platform. Many of these platforms were installed some years ago and their infrastructure will not support the weight of intervention equipment. Historically, these wells would be worked over by an expensive jackup drilling rig.

The GMS cantilever system allows us to skid a workover unit over the well without passing any load to the platform or tower. The system is also highly automated and is therefore quicker than conventional methods previously used for most workover operations.

Our four-legged SESVs can move locations in-field in less than a day, while three-legged drilling rigs without self-propulsion require support vessels and at least three days to move a similar distance. The GMS SESV therefore requires a much shorter weather window for each move, increasing the probability of a suitable weather window occurring and significantly reducing the risk of a weather delay. Since there is no requirement for tugs or similar support vessels to move our SESVs, as there would be with a drilling rig, our clients will benefit from significant savings in both their third party operational costs and the non-productive time lost due to weather and rigging up time when compared to drilling rigs. The combined benefits of these economies and efficiencies will deliver approximately a 25% time saving on a single move using a GMS SESV with a well workover cantilever compared to the same activity performed by a conventional non-propelled jackup drilling rig; this excludes any savings to clients from the more competitive charter rates of our vessels versus those of a drilling rig.

A compelling combination in the current market and for clients' continuing operations

Our innovative cantilever systems give us a highly competitive advantage over less capable vessels carrying out similar work and this, combined with the flexibility and greater operational efficiency of our vessels, presents a compelling case for clients seeking safe and more cost-effective solutions for their projects. We are pleased to see our clients recognising the value our SESVs bring to intensive well intervention campaigns across multiple locations and strongly believe that our well workover cantilever systems will be an attractive proposition for our clients both in the current market and when oil prices increase.

The cantilever system on GMS Evolution will be ready for operations from Q2 2017.

Self-propelled SESV arrives alongside the well head.

SESV jacks up rapidly.

Cantilever workover unit slides from the SESV over the well head.

1 Dwellop A.S. is a leading Norwegian designer and former Rolls Royce Marine company. The cantilever and equipment technology was developed for the harsh environment of the North Sea under the quality requirements of Rolls-Royce.
2 ADIPEC – Abu Dhabi International Petroleum Exhibition & Conference. ADIPEC hosts more than 2,000 exhibitors (including 15 international oil companies and 20 national oil companies) and attracts around 100,000 trade professionals from 135 countries.

FINANCIAL REVIEW

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

* Alternative performance measure. Refer to Glossary on pages 122 to 123 for further details and definitions.

Summary

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

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

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

The following sections discuss the Group's adjusted results as the Directors consider that they provide a useful indicator of underlying performance. The adjusting items (non-operational costs) are discussed below in this review and a reconciliation between the adjusted and statutory results is contained in note 6.

Revenue and segmental profit

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

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

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

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

Cost of sales and general and administrative expenses

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

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

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

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

Depreciation

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

Adjusted EBITDA

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

Finance costs and foreign exchange

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

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

Taxation

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

Earnings

Adjusted net profit decreased in 2016 to US$ 50.7 million (2015: US$ 84.9 million) mainly arising from the reduction in revenue in the year. The fully diluted adjusted earnings per share (DEPS) for the year decreased to 14.35 cents (2015: 24.05 cents). Adjusted DEPS is calculated based on adjusted profit after tax and a reconciliation between the adjusted and statutory profit, is provided in note 6.

Dividends

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

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

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

Capital expenditure

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

Cash flow and net debt

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

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

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

Balance sheet

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

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

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

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

Total non-current assets at 31 December 2016 were US$ 857.2 million (2015: US$ 803.4 million). This increase is primarily attributable to the US$ 56.1 million increase in the net book value of property, plant and

FINANCIAL REVIEW CONTINUED

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

Equity

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

Property, plant and equipment

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

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

An impairment of US$ 6.6 million was identified at year end on a leased Small Class Vessel accounted for as a finance lease. As the release of the lease liability is recorded in the financial statements at a faster rate than the rate at which the asset is depreciated, this has resulted in the asset having a higher carrying amount compared to the balance of the lease liability. Given that the Group is unlikely to exercise the purchase option on the lease in the current market environment, this difference between the carrying amount of the asset and the balance of the lease liability as at 31 December 2016, has given rise to an impairment loss in the financial statements. The total impairment loss in the year of US$ 21.3 million has been charged to cost of sales in the statement of comprehensive income.

Adjusting items

The Group presents adjusted results, in addition to the statutory results, as the Directors consider that they provide a useful indication of underlying performance. The items that are excluded from the adjusted results are non-operational items. In 2016 these comprised non-cash impairment charges on the non-core assets and a leased vessel, amounting to US$ 21.3 million. In 2015 the adjusting items comprised the expensing of unamortised loan arrangement fees of US$ 9.9 million that were written off at the time of the Group refinancing. A reconciliation between the adjusted and statutory results is provided in note 6.

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

Outlook

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

John Brown
Chief Financial Officer
27 March 2017


VULCAN

CORPORATE SOCIAL RESPONSIBILITY

We are committed to operating safely and to upholding high ethical standards across all aspects of our business.

Ethical practice

Our core values of Responsibility, Excellence and Relationships define who we are, what we believe in and strive for and how we act and behave. Further information on our core values can be found on our website.

GMS operates responsibly within a framework of formal legal and regulatory disclosure requirements. Our corporate governance structure is designed to ensure we are well-positioned to conduct our business appropriately as we seek to deliver the best value for our shareholders. We are committed to the clear and comprehensive communication of our financial and non-financial performance to our stakeholders via regulatory reporting and through our website.

The GMS Code of Conduct sets out the basic rules of the Group and its purpose is to ensure we work safely, ethically, efficiently and within the laws of the countries in which we operate. All our staff receive Code of Conduct training as part of their induction. Our reputation and our success is dependent on our staff taking responsibility for putting the Code of Conduct into practice and maintaining a high ethical standard in our work and in our dealings with our clients, host and foreign governments, joint venture partners and associates, contractors, employees, consultants, agents and everyone with whom we have business dealings throughout the world. GMS maintains an awareness of human rights issues and observance of pertinent law and this is reflected in our suite of Group policies including our Anti-Slavery Statement, Anti-Corruption and Bribery Policy and Whistleblowing Policy. Our Anti-Slavery Statement may be viewed on our website.

Clients

We value the relationships we have with our clients, which are built on trust and a proven track record of delivering successful operations. Many of these relationships are with long-term clients, in the case of ADNOC subsidiaries spanning more than 40 years. We continually seek to improve our operational procedures across our entire fleet and through close collaboration with our clients we are able to offer considerable flexibility whereby we can tailor our vessels to suit their evolving needs.

Shareholders

We communicate with our shareholders in a variety of ways such as through meetings, presentations and roadshow events (mainly results-oriented) and through participation in investor conferences in Europe and the Middle East. Our Company news is also published on our website and promulgated through relevant press and selected social media. Further information on our shareholder engagement can be found on page 42.

Employees and subcontractors

We are committed to providing our employees and on-site subcontractors with a safe working environment. We ensure our subcontracted personnel working at our premises or in our vessels offshore are treated with the same respect afforded to our own staff and that they comply with the Group's standards and working practices. We encourage an honest and open dialogue with our workforce and host a variety of formal and informal communications initiatives. In addition, our offshore performance coaches' act as a sounding board for issues close to the crews' hearts, with feedback passed to the GMS senior management team for appropriate action.

We are committed to ensuring the personal and professional development of our staff, so they can reach their full potential within GMS. More information on how we develop our people can be found in our Business Model on pages 12 to 14.

Community

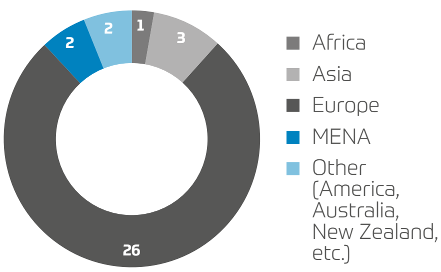
GMS understands how important it is to contribute to the local communities where we work. We encourage a healthy living lifestyle, both within the Group and the wider community, through our support of various sports activities and charity events. During the period we were again pleased to work with the Emirates Red Crescent as a preferred charity of choice.

Our workforce

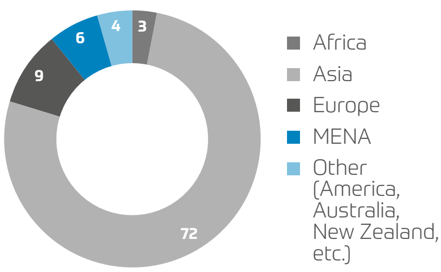
We employ personnel from around 50 countries and are very proud of our diversity, which ensures we look at ourselves, and the way we work, from many different viewpoints.

The charts below provide details on the diversity of our personnel as at 31 December 2016

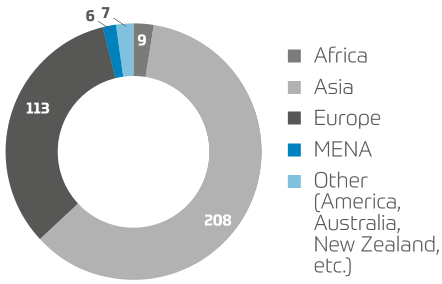
Land-based management*
Total of 34** (32 male, 2 female)



Land-based staff*
Total of 94 (65 male, 29 female)



Offshore employees*
Total of 343 (all male)



* For cultural and legal reasons the extent to which we can increase the number of female personnel is often limited. For example, we cannot employ women offshore in the Middle East.
** Of the 34 land-based management, 7 were members of the senior management team (all male).
The Board of Directors comprised 7 members (all male); further information on the diversity of the Board can be found in the Report of the Nomination Committee on page 60.

Environmental responsibility

Greenhouse Gas Emissions Statement

This section has been prepared in accordance with our regulatory obligation to report greenhouse gas emissions pursuant to Section 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The GHG emissions estimates summarised in this report have been developed using methods documented in the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), the Climate Registry 2014, the IEA CO_2 Emissions from Fuel combustion 2016 and emission factors from the UK Government Conversion Factors for Company Reporting 2016, including the June 2014 Financial Reporting Council guidance on strategic reports, the June 2013 Department for Environment, Food and Rural Affairs guidance on how to report on environmental matters. These documents include the latest accepted methodologies for estimating emissions; these methodologies result in data that are consistent with accepted international GHG reporting protocols.

We have reported on all of the emission sources required. These sources fall within our consolidated financial statements. We do not have responsibility for any emission sources in entities that are not included in our consolidated financial statements.

The intensity ratio of tonnes CO_2e per US$ 1,000 of Group revenue earned during the reporting period has been chosen because, as a service company, the amount of revenue earned best reflects our operational output and therefore the contribution to our GHG emissions.

The table below shows our GHG emissions for the year.

The consumption of fuel during the operation of our vessels is the largest contributor to our GHG emissions. Although our vessels are usually leased to our clients on a long-term basis, who both pay for fuel and determine where each vessel sails, we have chosen to account for their GHG emissions within our footprint, in accordance with the 'operational control' approach to developing our GHG footprint.

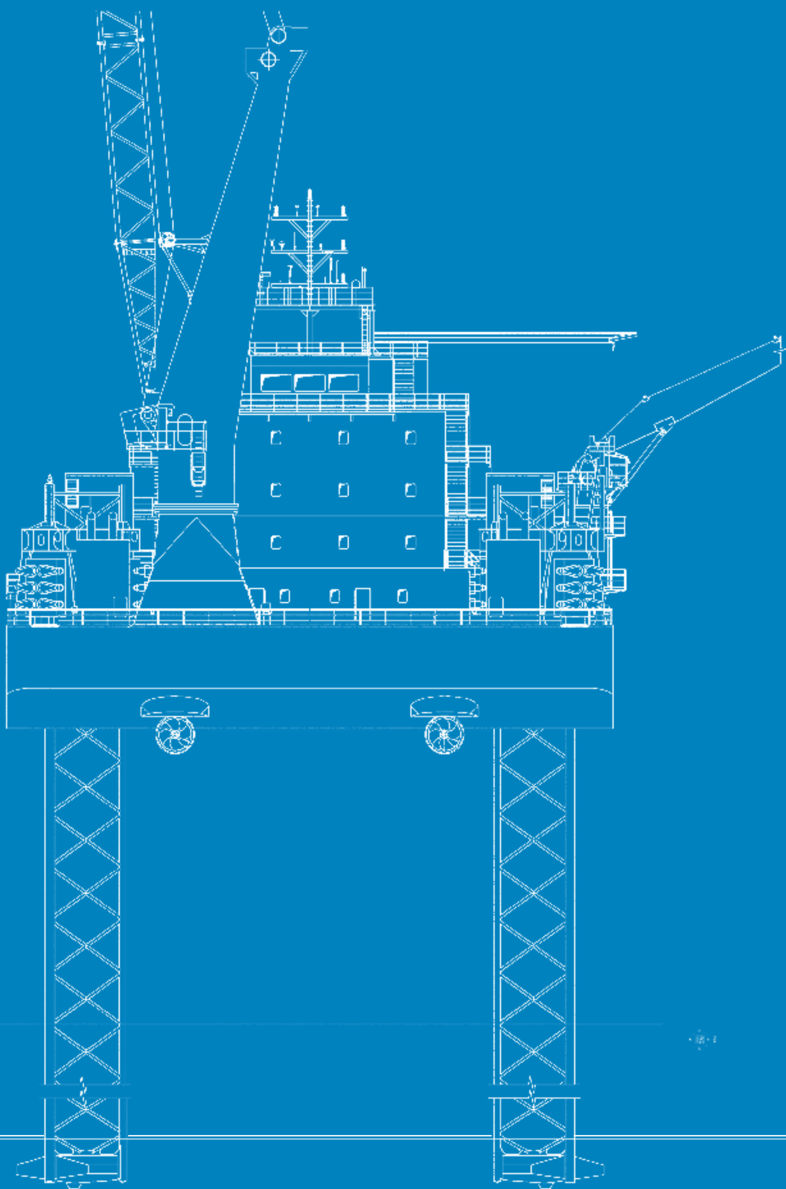
Global GHG emissions data for period 1 January 2016 to 31 December 2016

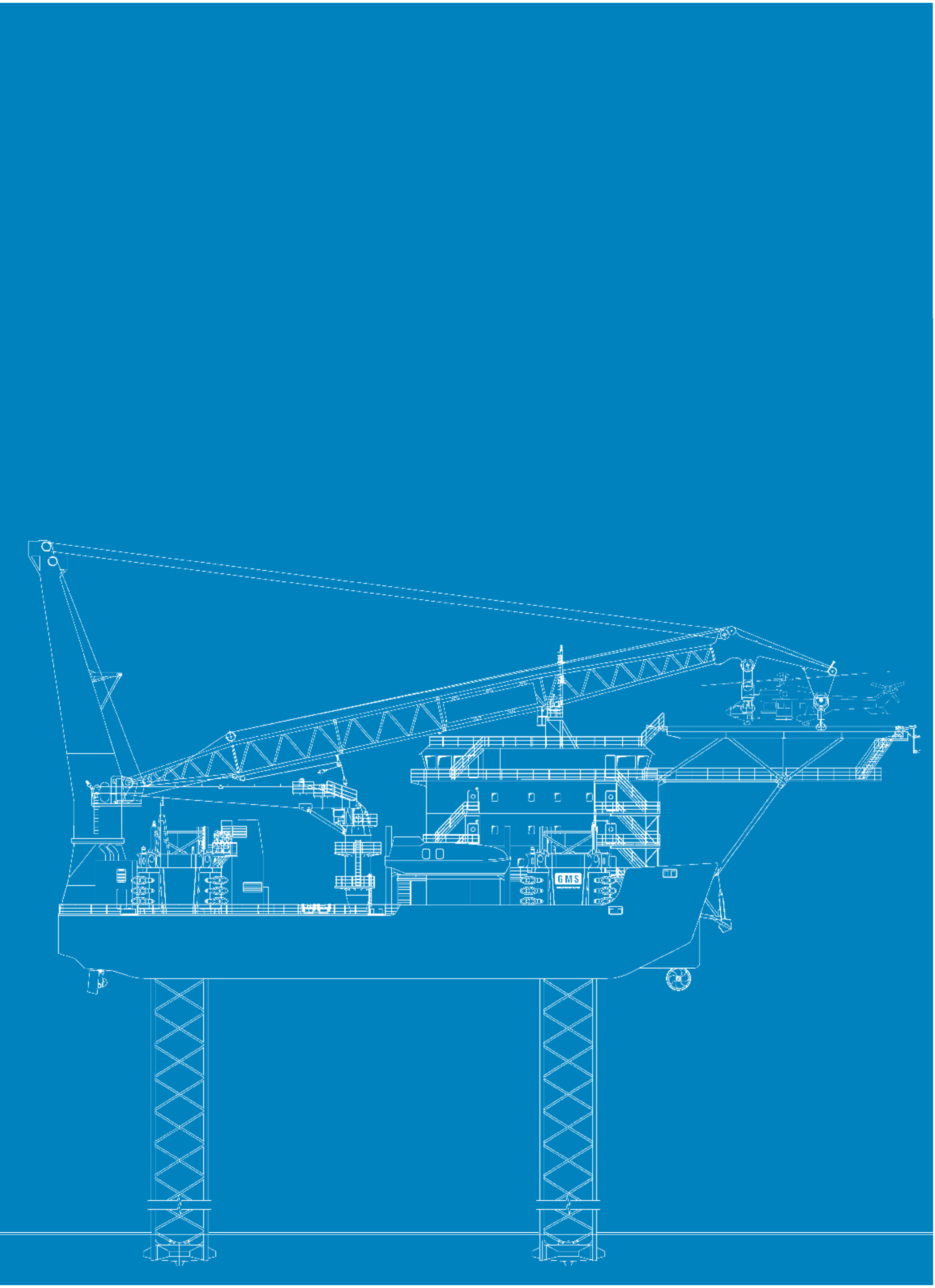
	Tonnes of CO_2e	
	2016	2015
Emissions from:		
Combustion of fuel and operation of facilities	**33,298***	62,727
Electricity, heat, steam and cooling purchased for own use	**1,043**	1,447
Total (in tonnes CO_2e)	**34,341**	64,174
	US$'000	US$'000
Total Revenue in the reporting period	**179,410**	219,713
Company's chosen intensity measurement:		
Emissions reported above normalised to the ratio of tonnes of CO_2e per US$ 1,000 of Group revenue	**0.2**	0.3

* The reduction in emissions from fuel from the previous year is due to a decrease in overall vessel usage.

Naming ceremony for GMS Sharqi.

GOVERNANCE




GMS

CHAIRMAN'S INTRODUCTION

Dear Shareholders,

I am pleased to introduce our 2016 Corporate Governance Report. This Corporate Governance Report explains key features of the Company's governance structure, to provide a greater understanding of how the main principles of the UK Corporate Governance Code ("the Code") have been applied and to highlight areas of focus during the year. Throughout 2016, the Board considers that the Company has complied in all respects with all the relevant recommendations of the Code.

The Board is committed to promoting high standards of corporate governance and understands that an effective and challenging Board is essential to enable the Company to deliver its strategy and shareholders' long-term interests, whilst also generating investor confidence that the business is conducting itself in a responsible manner. The Company continues to maintain a robust governance structure through its corporate governance policies. In Board positions, whether executive or non-executive, objectivity and integrity, as well as ability and diversity, assist the Board in its key functions, and are prerequisites for appointment. These prerequisites further apply to senior management appointments below Board level, as well as the Company's succession planning.

As discussed in the report of the Nomination Committee, the Board determined it would be appropriate to reduce the size of the Board, whilst still retaining an appropriate balance of independent and non-independent Directors. Accordingly independent non-executive Director Mike Straughen and non-executive Director H. Richard Dallas stepped down from the Board with effect from 1 January 2017. On behalf of the Company I would like to thank Mike Straughen and H. Richard Dallas, who both joined the Board at the time of our IPO in 2014, for their valuable contribution to the Group. Their wealth of experience and sound stewardship has been much appreciated throughout their tenure with us.

As of 1 January 2017 the Board comprises an independent Chairman, an executive Director, two independent non-executive Directors and a non-executive Director who is considered by the Board to not be independent because of his relationship with Gulf Capital, a substantial shareholder in the Company. The Company has three Committees: the Audit and Risk Committee, the Remuneration Committee and the Nomination Committee, all of which are compliant with the Code. The reports from the Chairman of each of these committees can be found in the pages that follow.

The focus for 2017 is on maintaining the organic development of the Company's governance framework whilst providing independent oversight and building long-term value for our shareholders.

Simon Heale
Chairman
27 March 2017

Governance calendar for 2016

The overall calendar of meetings of the Board and its Committees for 2016 is shown below.

	Further information	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Board (Main Meetings)	Page 41	Attended		Attended		Attended	Attended		Attended		Attended		Attended
Audit and Risk Committee	Page 43	Attended		Attended			Attended		Attended				Attended
Remuneration Committee	Page 47	Attended	Attended										Attended
Nomination Committee	Page 60												Attended
Annual General Meeting	Page 116					Attended							

For details of the responsibilities of the Board Committees, their terms of reference can be found on the Company's website.

Meeting attendance by Directors in 2016

The attendance of the Directors at the meetings of the Board and its Committees during 2016 is shown below.

- Attended
- Attended all or part of meeting as an invitee
- Apologies

	Board	Audit & Risk	Remuneration	Nomination
Simon Heale	Attended, Attended, Attended, Attended, Attended, Attended, Attended	Invitee, Invitee, Invitee, Invitee, Invitee	Invitee, Invitee, Invitee	Attended
Duncan Anderson	Attended, Attended, Attended, Attended, Attended, Attended, Attended		Invitee, Invitee, Invitee	
Simon Batey	Attended, Attended, Attended, Attended, Attended, Attended, Attended	Attended, Attended, Attended, Attended, Attended	Attended, Attended, Attended	Attended
H. Richard Dallas	Attended, Attended, Attended, Attended, Attended, Attended, Attended		Invitee, Invitee, Invitee	
Dr Karim El Solh*	Attended, Attended, Attended, Apologies, Attended, Attended, Attended			Attended
Mike Straughen	Attended, Attended, Attended, Attended, Attended, Attended, Attended	Attended, Attended, Attended, Attended, Attended	Attended, Attended, Attended	Attended
W. Richard Anderson	Attended, Attended, Attended, Apologies, Attended, Attended, Attended**	Attended, Attended, Attended, Attended, Attended	Attended, Attended, Attended	Attended

Christopher Foll, a Chartered Accountant and Chief Financial Officer of Gulf Capital, has been appointed as an alternate Director for Dr. Karim El Solh; further details can be found in the Directors' Report on page 63.

* Dr. Karim El Solh was unable to attend the June Board meeting. However he was represented by the alternate Director Christopher Foll who attended the meeting.
** W. Richard Anderson attended part of the December Board meeting but due to a technology failure was unable to attend the whole meeting. The Company Secretary briefed W. Richard Anderson fully on the discussions held at the meeting and no change was proposed in the decisions that had been made by the Board during the portion of the meeting that W. Richard Anderson was absent.

BOARD OF DIRECTORS



	Simon Heale Independent Non-executive Chairman	Duncan Anderson Chief Executive Officer	Simon Batey Senior Independent Non-executive Director
Appointment date	February 2014	January 2014 (with the Group since October 2007)	February 2014
Experience	A non-executive director at Coats plc from 2010 to 2014. Served on the boards of PZ Cussons from 2007 to 2013 and Morgan Advanced Materials from 2005 to 2014. Non-executive director and chairman at Panmure Gordon & Co plc from 2007 to 2011. Has extensive experience in senior executive roles, including as chief executive at the London Metal Exchange from 2001 to 2006, chief operating officer and chief financial officer at Jardine Fleming Ltd from 1997 to 2001 and deputy managing director at Cathay Pacific Airways from 1994 to 1997. A Chartered Accountant with a degree in Philosophy, Politics and Economics from Oxford University.	Brings a wealth of experience, spanning more than 35 years, to the executive team gained from prior role as chief operating officer at the UAE-based Lamnalco Group, which included the management of a fleet of 90 vessels, as well as increasing the client base in West Africa and the Middle East. Also operated the largest offshore service vessel fleet in the region as chief operating officer at Gulf Offshore North Sea. Responsible for leading the management of the GMS Group and the implementation of its strategy. A UK Chartered Engineer, with a post-graduate BSc (Hons) degree in Marine Machinery Monitoring Control.	An independent non-executive director and chairman of the Audit Committee at Telecity Group from 2007 to 2016. A non-executive director at Arriva plc from 2003 to 2010, THUS Group plc in 2006 and BlackRock New Energy Investment Trust plc from 2010 to 2014. A member of the Postal Services Commission, responsible for the regulation of the UK postal services sector, from 2010 to 2011. As a Chartered Accountant, spent 12 years in professional practice with Armitage & Norton (now part of KPMG), latterly as a partner. Has more than 20 years' experience in a number of senior finance roles in industry. Group finance director of United Utilities plc between 2000 and 2006. Chief financial officer at Thames Water Utilities Ltd from 2006 to 2007. Between 1987 and 2000, worked at AMEC Foster Wheeler plc, initially as deputy group finance director and then, from 1992, as group finance director. A Chartered Accountant with an MA in Geography from Oxford University.
External appointments	Non-executive chairman at Kaz Minerals plc, previously known as Kazakhmys plc, since 2013 and a non-executive director since 2007. Non-executive chairman of Marex Spectron since 2016 and a non-executive director since 2007.	Member of ABS Worldwide Technical Committee.	Capital programme consultancy work.
Committees	Chairman of the Nomination Committee.		Chairman of the Audit and Risk Committee. Member of the Nomination and Remuneration Committees.

W. Richard Anderson
Independent
Non-executive Director

February 2014

Has 38 years' experience in the oil and gas industry and related finance and management. Previously, chief financial officer at Eurasia Drilling Company from 2008 to 2015 and a member of the Board from 2011 to 2015. President and chief executive officer at Prime Natural Resources Inc from 1999 to 2007. Partner from 1989 to 1995 and then managing partner from 1995 to 1998 at Hein & Associates LLP. Served on the boards of Calibre Energy Inc from 2005 to 2007, Transocean Ltd from 2007 to 2011 and Boots & Coots Inc from 1999 to 2010.

A Certified Public Accountant, with a BSc in Business from University of Colorado, magna cum laude, and a Masters in Taxation from the University of Denver.

Chairman of the board at Vanguard Natural Resources LLC since 2008. Non-executive director at Soma Oil & Gas Holdings since 2013.

Chairman of the Remuneration Committee. Member of the Audit and Risk, and Nomination Committees.

Mike Straughen*
Independent
Non-executive Director

February 2014

Board member of the John Wood Group PLC and chief executive officer of the Engineering Division from 2007 to 2014. With AMEC for 25 years, latterly as group managing director responsible for UK activities across all sectors including global oil & gas. A member of PILOT, the UK Government Oil & Gas Advisory Board, from 2000 to 2007 and chairman of the Energy Industry Council from 2002 to 2007. Recently a member of the UK Government's Offshore Wind Cost Reduction Task Force. A member of the Scottish Government's Energy Advisory Board from January 2013 to September 2014.

A Chartered Engineer with a BSc (Hons) degree in Mechanical Engineering from Newcastle University.

A non-executive director of three privately owned oilfield services businesses. A member of the Energy Institute since 2001.

Member of the Audit and Risk, Nomination and Remuneration Committees.

H. Richard Dallas*
Non-executive Director

February 2014

Previously served as managing director of Oryx Capital International, an investment group composed of families from GCC that specialised in small to mid-cap investments in the United States, from 1998 to 2007. A partner of Gibson, Dunn & Crutcher from 1985 to 1998 and established and managed offices in London and Saudi Arabia.

Holds an A.B. degree in Economics, with honours, from Stanford University and a J.D. degree from the University of Southern California.

Managing director at Gulf Capital since 2007.

Dr Karim El Solh
Non-executive Director

February 2014

Co-founder of Gulf Capital, one of the largest alternative asset management firms in the Middle East, since its formation in 2006. Under his leadership, Gulf Capital has been associated with some of the region's most prominent transactions, with the firm managing in excess of US$ 4 billion in assets.

Chairman of Maritime Industrial Services from 2007 to 2011 and Chairman of Metito from 2006 to 2014. Chief executive officer of the Abu Dhabi-based Investment Bank, The National Investor, from 2001 to 2005.

Holds a B.S. degree in Civil Engineering from Cornell University, an MBA from Georgetown University and a Doctorate in Economics from the Institute D'Etudes Politiques de Paris (Science Po).

Chief executive officer of Gulf Capital since 2006. Co-managing partner of Gulf Related since 2010. Chairman of Reach Group since 2014.

Member of the Nomination Committee.

* Resigned from the GMS Board with effect from 1 January 2017.

CORPORATE GOVERNANCE

Corporate Governance Report

Compliance with 2014 UK Corporate Governance Code ("the Code")
The Company has complied with all the relevant provisions set out in the Code during the year. A copy of the Code is available from the Financial Reporting Council's website.

Governance overview

Membership of the Board
The composition of the Board complies with the provision of the Code which provides that independent non-executive Directors should comprise at least half of the Board, excluding the Chairman.

- Chairman: Simon Heale
- Executive Director: Duncan Anderson
- Independent Non-executive Directors: W. Richard Anderson, Mike Straughen*
- Senior Independent Non-executive Director: Simon Batey
- Non-executive Directors: Karim El Solh, H. Richard Dallas*

* Mike Straughen and H. Richard Dallas stepped down from the Board with effect from 1 January 2017. The Report of the Nomination Committee on page 60 contains further information on this matter.

The composition, qualifications, experience and balance of skills on the Board are regularly reviewed by the Board to ensure that there is the right mix on the Board and its Committees and that they are working effectively. The current members of the Board have a wide range of appropriate skills and experience and their biographies can be found on pages 38 to 39.

Non-executive Director independence
The Board considers and reviews the independence of each non-executive Director on an annual basis as part of the Directors' performance evaluation. In carrying out the review, consideration is given to factors such as their character, judgment, commitment and performance on the Board and relevant Committees and their ability to provide objective challenge to Management. Following the annual review for 2016, the Board concluded that each of the independent non-executive Directors continue to demonstrate those behaviours and continued to be considered by the Board as independent.

Division of responsibilities
In compliance with the UK Corporate Governance Code, a clear written division of responsibilities between the roles of Chairman and Chief Executive Officer has been agreed by the Board. The Chairman is responsible for the leadership and effectiveness of the Board. He chairs the Board meetings, ensures the agendas are appropriate and is responsible for ensuring that all Directors actively contribute to the determination of the Group's strategy. The Chief Executive Officer is responsible for the day-to-day management of the Group and implementing the Group's strategy, developing proposals for Board approval and ensuring that a regular dialogue with shareholders is maintained. The separation of authority enhances independent oversight of Executive Management by the Board and helps to ensure that no one individual on the Board has unfettered authority.

Division of Board responsibilities

Chairman

- Providing strategic insight from his wide-ranging business experience and contacts built up over many years.
- Ensuring that the Board plays a full and constructive part in the determination and development of the Group's strategy.
- Meeting major shareholders on governance matters and is an alternate point of contact instead of the Chief Executive Officer for shareholders on other matters as well.
- Providing a sounding Board for the Chief Executive Officer on key business decisions, challenging proposals where appropriate.
- Agreeing with executive Director's subjects for particular consideration by the Board during the year at Board meetings, ensuring that adequate time is available to discuss all agenda items.
- Promoting effective relations between the non-executive Directors and the Executive Management.

Chief Executive Officer

- Bringing matters of particular significance or risk to the Chairman, for discussion and consideration if appropriate.
- Representing the Group to its shareholders, customers, suppliers and the general industry.
- Leading the business and the rest of the Management team and ensuring effective implementation of the Board's decisions.
- Driving the successful and efficient achievement of the Company's KPIs and objectives.
- Leading the development of the Group's strategy with input from the rest of the Board and our advisers.
- Working with the Chairman in agreeing subjects for particular consideration by the Board during the year.

Effective division of responsibilities and Board operation

Senior Independent Director

- Serving as an intermediary for the other Directors with the Chairman when necessary.
- Making himself available to shareholders if they have concerns that cannot be addressed through normal channels.
- Acting as an internal sounding Board for the Chairman.
- Ensuring a balanced understanding of major shareholders' issues and concerns.
- Meeting with the other non-executive Directors without the Chairman present, at least annually, in order to appraise the Chairman's performance.

Company Secretary

- Secretary to the Board and each of its Committees, reporting directly to their Chairman.
- Assisting the Chairman to ensure that Board papers are clear, accurate, timely, succinct and of sufficient quality to enable the Board to discharge its duties effectively.
- Providing advice to the Board and each of its Committees through the Chairman concerning Board and governance matters.

Board calendar for 2016

At specific meetings

January	March	May	June	August	October	December
Cost management initiatives Capital structure and shareholder returns Remuneration review	Review and approval of 2015 annual results Nomination Committee Report: - Board Evaluation Process	Update on cost management initiatives Equity Capital markets update from brokers	Amendments to bank facility agreement Plans for compliance with Market Abuse Regulation	Review and approval of 2016 Half Year Results	Banking covenants and forecasts Succession Planning Annual discussion in absence of Chairman Review of Group business strategy Group risk review	Review and approval of 2017 budget Board composition Approval of 2017 Group KPIs

At each main meeting

Review and discussion of:

- investor relations & feedback
- new build programme
- competitive landscape and market
- fleet performance and operational matters
- strategic opportunities

Review of reports on:

- finance and accounting matters
- health, safety and the environment
- personnel and support services
- risk management
- trading and forecast update
- key risks facing the group

Review of reports from Board Committees as relevant

How the Board operates

The Board is responsible for providing entrepreneurial leadership on behalf of the Company and exercising its business judgment within a framework of prudent and effective controls. It also agrees the strategic direction and governance structure that will help achieve the long-term success of the Company and maximise shareholder value. The Board takes the lead in areas such as strategy, financial policy, annual budgeting, significant potential acquisitions, risk management and the overall system of internal control. The Board's full responsibilities are set out in the matters reserved for the Board. The ultimate responsibility for the Company rests with the Board and its legal powers and responsibilities are stated in the Articles of Association, which are available for inspection at the Company's registered office in the UK.

The Board delegates authority to its Committees to carry out certain tasks on its behalf, so that it can operate efficiently and give the right level of attention and consideration to relevant matters. The composition and role of each Committee is summarised on pages 43 to 61 and their full terms of reference are available on the Company's website.

The Chairman, along with the Chief Executive Officer and the Company Secretary, has established Board processes designed to maximise its performance. Key aspects of these are shown below:

- the Chairman, Chief Executive Officer and Company Secretary meet towards the beginning of each year to agree an overall calendar of subjects to be discussed by the Board during the year;
- Board meetings are timetabled to ensure adequate time for open discussion of each agenda item allowing for questions, scrutiny, constructive challenge and full debates on key matters for decisions to be taken by consensus (although any dissenting views would be minuted accordingly);
- the development of Group strategy is led by the Chief Executive Officer, with input, challenge, examination and ongoing testing from the non-executive Directors and subsequently reviewed throughout the year;
- good working relationships exist between non-executive Directors and non-Board members of the senior management team;
- members of the senior management team draw on the collective experience of the Board, including its non-executive Directors;
- comprehensive reporting packs, which are designed to be clear, accurate and analytical, are normally distributed in advance of Board meetings allowing sufficient time for their review, consideration and clarification or amplification of reports in advance of the meeting;
- once goals have been set and actions agreed, the Board receives regular reports on their implementation;
- comprehensive management accounts with commentary and analysis are distributed to the Board on a monthly basis;
- the Board reviews the Group's risk register at each of its main meetings and challenges this where appropriate;
- the Board visits the Group's major business locations both to review its operations, progress on vessels construction and to meet with local management; and
- all Directors have open access to the Group's key advisers, including Management and the Company Secretary, and are also entitled to seek independent professional advice at the Group's expense where appropriate.

CORPORATE GOVERNANCE CONTINUED

Director appointment and tenure

All non-executive Directors serve on the basis of letters of appointment which are available for inspection at the Company's registered office. The letters of appointment set out the expected time commitment of non-executive Directors, who, on appointment, undertake that they will have sufficient time to meet what is expected of them.

The non-executive Directors are appointed for a term of three years, subject to earlier termination, including provision for early termination by either the Company or the non-executive Director on three months' notice. In accordance with the Company's Articles of Association, all Directors must retire by rotation and seek re-election by shareholders every three years; however, it is intended that the Directors will each retire and submit themselves for re-election by shareholders annually.

Director induction and training

The training needs of the Directors are periodically discussed at Board meetings and Nomination Committee meetings and briefings are arranged on issues relating to corporate governance and other areas of importance. Arrangements are in place for any newly appointed Directors to undertake an induction programme designed to develop their knowledge and understanding of the Company. The induction programme includes briefing sessions during regular Board meetings, visits to the Company's fabrication, modification and maintenance yard, meetings with members of the wider management team and discussions on relevant business issues. Upon appointment Directors are advised of their legal and other duties and their obligations as Directors of a listed company and under the Companies Act 2006 and they receive training from the Company's lawyers.

During Q3 2016, the Company implemented new Group-wide policies to be compliant with the Market Abuse Regulation, effective from 3 July 2016, and training sessions and discussions were held with the Board and members of Senior Management, as appropriate.

Director election

Following recommendations from the Nomination Committee, the Board considers that all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties. In accordance with the provisions B.7.1 of the UK Corporate Governance Code, all Directors wishing to continue serving, will be subject to annual re-election. Accordingly, all Directors elected in 2016, apart from Mike Straughen and H. Richard Dallas who stepped down from the Board effective from 1 January 2017, will seek re-election at the Company's 2017 Annual General Meeting ("AGM") as set out in the Notice of the Annual General Meeting (see page 116 for resolutions relating to re-election of Directors).

Directors' conflicts of interest

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company, unless that conflict is first authorised by the Directors. This includes potential conflicts that may arise when a Director takes up a position with another company. The Company's Articles of Association allow the other Directors to authorise such potential conflicts, and there is in place a procedure to deal with any actual or potential conflicts of interest. The Board deals with each actual or potential conflict of interest on its individual merit and takes into consideration all the circumstances.

All potential conflicts approved by the Board are recorded in an Interests Register, which is reviewed by the Board at each main Board meeting to ensure that the procedure is operating at maximum effectiveness.

Board evaluation and effectiveness

Critical to the success of our Board and Committees in achieving their aims is the effectiveness with which they operate. Accordingly, we take our evaluation of this seriously. A rigorous internal evaluation was conducted by the Chairman in 2016 by way of an anonymous questionnaire which was completed by the Directors. The questionnaire was structured to provide Directors with an opportunity to express their views on a range of matters including:

- strategy and implementation;
- succession planning and talent development;
- Board dynamics and operation;
- Chairman effectiveness;
- performance of the Board and each of its Committees; and
- Director self-assessment and training needs.

Following the internal evaluation process conducted in 2016, the Board and the Board Committees are satisfied that they are operating effectively and that each Director has performed well and demonstrated commitment in respect of their individual roles on the Board. In addition, as part of the evaluation process, the Chairman and non-executive Directors met twice during the year in the absence of the executive Director. We are intending to undertake an externally facilitated Board evaluation process in respect of the calendar year 2017.

Shareholder engagement

Responsibility for shareholder relations rest with the Chairman, Chief Executive Officer and Chief Financial Officer. They ensure that there is effective communication with shareholders on matters such as governance and strategy, and are responsible for ensuring that the Board understands the views of major shareholders.

As part of our investor relations programme a combination of presentations, Group calls and one-to-one meetings are arranged to discuss the Company's interim and full year results with stock market participants. In the intervening periods meetings are held with existing and prospective shareholders to update them on our latest performance or to introduce them to the Company. Periodically we arrange visits to the business to give analysts, brokers and major shareholders a better understanding of how we manage our business and to ensure we understand the views of our shareholders. These visits and meetings are principally undertaken by the Chief Executive Officer and the Chief Financial Officer.

The Board receives regular updates on the views of its shareholders from its brokers at its Board meetings. In addition, the Senior Independent Director is available to meet shareholders if they wish to raise issues separately from the arrangements as described above.

The AGM is the Company's principal forum for communication with private shareholders. In addition to the formal business, there will be a presentation by the Chief Executive Officer on the performance of the Group and its future development. The Chairman of the Board and the Chairman of each Board Committee, together with members of senior management, will be available to answer shareholders' questions at the AGM.

The presentations to analysts are published on the Company's website, along with a copy of all announcements made by way of a Regulatory Information Service.

REPORT OF THE AUDIT AND RISK COMMITTEE

Committee members

- Chairman and Senior Independent Non-executive Director: Simon Batey
- Independent Non-executive Directors: W. Richard Anderson Mike Straughen*

* Mike Straughen stepped down from the Board and the Audit and Risk Committee with effect from 1 January 2017. The Report of the Nomination Committee contains further information on this matter.

Dear Shareholders,

I am pleased to present the Audit and Risk Committee report for 2016. During the year, our activities continued to focus on the effectiveness of the Group's risk management and internal controls, the integrity of the Group's financial reporting and the effectiveness of the internal and external audit processes. These areas are critical to the way the Group's business is operated and are vital in enabling the Group to achieve its strategic objectives in a controlled and sustainable manner. We tested and challenged these areas in conjunction with Management and the internal and external auditors as appropriate.

Throughout 2016, membership of the Committee was comprised solely of three independent non-executive Directors, as shown in the chart above. Following the stepping down of Mike Straughen from the Committee, effective from 1 January 2017, the membership of the Committee was reduced to two independent non-executive Directors. The composition of the Committee will remain in compliance with the Code which recommends that, as the Group is classified as a "smaller company", the Committee needs to only have two members, both of whom should be independent non-executive Directors, as is the case for GMS. The Board is satisfied that both members of the Committee have recent and relevant financial experience given that both Simon Batey and W. Richard Anderson are qualified accountants, and have comprehensive industry knowledge and experience.

The Audit and Risk Committee's responsibilities include:

Financial statements	• monitoring the integrity of the financial statements of the Group and formal announcements relating to the Group's financial performance; • reviewing any significant financial reporting judgments contained in them; • reviewing accounting policies, accounting treatments and disclosures in financial reports; and • providing advice to the Board on whether the Annual Report, taken as a whole, is fair, balanced and understandable.
External audit	• advising the Board on the policy with regards to audit tendering, taking into account relevant regulatory requirements and making recommendations to the Board as to the appointment, reappointment or removal of the external auditor; • making recommendations to the Board as to the remuneration of the external auditor; • reviewing the terms of engagement, independence, objectivity and effectiveness of the external auditors; and • assessing the external audit process and the appropriateness of the external auditors to supply non-audit services, in accordance with Group policy.
Internal audit	• reviewing the Group's internal financial controls and internal control and risk management systems; and • monitoring and assessing the effectiveness of the Group's internal audit function.
Whistleblowing and related policies	• reviewing the Group's whistleblowing procedures and ensuring that arrangements are in place for the proportionate and independent investigation of possible improprieties in respect of financial and other matters, for appropriate follow-up action.

REPORT OF THE AUDIT AND RISK COMMITTEE CONTINUED

The Audit and Risk Committee discharges its responsibilities through a series of scheduled meetings during the year, the agenda of which is linked to events in the financial calendar of the Company. We met five times during the financial year and attendance at those meetings is set out on page 37. The Committee receives reports from external advisers and from the senior management team, as required, to enable it to discharge its duties. The Chief Financial Officer and senior members of the finance team attend each of these meetings at our request. The internal auditor attends and presents at the majority of meetings. In addition, the external auditor attended three of these meetings.

The external auditor receives copies of all relevant Committee papers (including papers that were considered at the meeting when they were not in attendance) and minutes of all Committee meetings.

The ultimate responsibility for reviewing and approving the Annual Report and financial statements and the half-yearly reports remains with the Board. The Committee gives due consideration to laws and regulations, the provisions of the Code and the requirements of the Listing Rules, and makes its recommendations on these reports to the Board. In 2016, this included an assessment of whether the Annual Report taken as a whole was fair, balanced and understandable.

Audit and Risk Committee calendar for 2016

At specific meetings

January	March	June	August	December
Review of progress in preparation of 2015 Annual Report Plans for assessing the effectiveness of the external auditors	Reviews of: • 2015 Annual Results • Report from the external auditors • Performance and independence of external auditors Recommendations to the Board on: • 2015 Annual Results • Reappointment of the external auditors	2016 Half Year Results process update Review of internal audit plans Approval of 2016 Group audit fees	Reviews of: • 2016 Half Year results • Report from the external auditors Recommendation to the Board on 2016 Half Year results	Update on 2016 Annual Report process Review of Group external audit plan

At each main meeting

Reviews of financial reporting, including:
- Any proposed changes to accounting policies
- Developments in reporting and accounting requirements affecting the Group
- Key assumptions, estimates and judgements proposed by management

Review and discussion of:
- New and revised regulatory reporting requirements
- Risk management systems and internal controls, including a discussion of the risk management process
- Minutes of previous meetings
- Reports on implementation of actions from previous meetings
- Whistle blowing and related polices

Consideration of internal audit:
- Internal audit reports and recommendations

Significant issues

The Audit and Risk Committee pays specific attention to matters it considers important based on their potential impact on the Group's results, or based on the level of complexity, judgement or estimation involved in their application. The Committee considered the following matters as significant issues in 2016:

Significant issue	How addressed
Impairment of property, plant and equipment IAS 36 requires that a review for impairment be carried out if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The continuing low oil price environment may impact the value in use of the vessels. Impairment assessments are judgmental and careful consideration of the assumptions used in the determination of the value in use of the assets is required.	The Committee evaluated Management's approach in determining the recoverable value of the Group's vessels. The assumptions used in the computation of the value in use of the vessels were assessed. Consideration was given to both the feasibility of the long-term business plan and the appropriateness of the weighted average cost of capital which formed an initial basis for determining the discount rate. There was an indication of an impairment on the non-core assets during the year and an impairment loss of US$ 14.7 million was recognised on the non-core assets. An impairment of US$ 6.6 million was identified at year end on a leased Small Class Vessel accounted for as a finance lease. Given that the Group is unlikely to exercise the purchase option on the lease in the current market environment, this difference between the carrying amount of the asset and the balance of the lease liability as at 31 December 2016, has given rise to an impairment loss in the financial statements.

Internal controls and risk management

The Group's systems of internal control and in particular our risk management process have been designed to support our strategic and business objectives as well as our internal control over financial reporting. The Board has an established ongoing process for identifying, evaluating and managing the significant risks faced by the Group that have been in place for the period under review and up to the date of the Annual Report. The process is regularly reviewed by the Board and is in accordance with the Turnbull Review guidance on internal controls and requirements of the Code.

Any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has a clear framework for identifying and managing risk, both at an operational and strategic level. Our risk identification and mitigation processes have been designed to be responsive to the constantly changing environment. The internal control process starts with identifying risks, compliance matters and other issues through routine reviews carried out by process owners and facilitated by regular Group-wide risk assessments. For risks that are recorded in the Group risk register, the Group then assesses the implications and consequences and determines the likelihood of occurrence. Further details of the Group's risk management process can be found on pages 18 to 21.

Internal audit

At the majority of meetings the Committee receives a report on internal controls. These reports provide an update on progress against the internal audit plan, including the status of actions and management responses, key improvement themes and recommended areas of business focus. The internal audit function is largely outsourced to KPMG.

In addition to the internal audit plan, the Group is regularly audited by certain clients and industry bodies, with any key findings reported to the Audit and Risk Committee who assess these findings and ensure that appropriate action is taken by Management as deemed necessary.

External audit

Appointment and independence

The Committee has overall responsibility for ensuring that the external auditors' independence and objectivity is not compromised.

The Committee considers formally the reappointment of the external auditor each year, as well as assessing their independence on an ongoing basis. In accordance with UK regulations and to help ensure independence, our auditors adhere to a rotation policy based on Auditing Practices Board standards that require the Group audit partner to rotate every five years. The 2016 year-end is the third year the current lead audit partner has been involved in the audit of the Group.

Deloitte LLP was appointed as external auditor of the Company in 2014. The Committee is aware of the recent changes to the requirements for external auditor selection and rotation. Whilst we do not consider it necessary to have a policy for mandatory rotation of external audit firms, we plan to give consideration to placing future audits out to tender over the coming years.

Assessment of external audit process

The Committee has an established framework to assess the effectiveness of the external audit process. This includes but is not limited to:

- A review of the audit plan including the materiality level set by the auditors and the process they have adopted to identify financial statement risks.
- A review of the Audit Quality Inspection (AQI) Report on our auditors published by the Financial Reporting Council with particular emphasis on those key messages applicable to the Company.
- A review of the final audit report, noting key areas of auditor judgement and the reasoning behind the conclusions reached (summarised in the Independent Auditor's Report on pages 68 to 72).
- A formal questionnaire issued to all senior management who are involved in the audit covering the robustness of the audit process, independence and objectivity, quality of delivery, quality of people and service, and value-added advice.

As part of the Committee's assessment of the objectivity and independence of the external auditor, the Committee held two private meetings with the external auditor without Management being present. In addition, I met privately with the external audit Engagement Partner on several occasions.

The Committee has determined that Deloitte LLP was effective in providing its services to the Group. As a result, the Committee has recommended to the Board that the reappointment of Deloitte LLP as the Company's external auditor be proposed to shareholders at the 2017 AGM.

Provision of non-audit services

The Committee believes that it may be appropriate for the Company to engage its external auditor to provide non-audit services in limited circumstances. Given the knowledge of a company's market, systems and operations which an external auditing firm gains through the audit process, together with effective working relationships developed with senior management, the Committee believes that on occasion appointing the Company's external auditor to provide non-audit services can represent an effective and cost-efficient process which is in the best interests of shareholders. However, to ensure the continued objectivity and independence of the external auditor are not compromised, the Committee has established a non-audit services policy.

The Committee requires specific approval for the provision of any non-audit services above the value of US$ 50,000 and, in the unlikely event that the non-audit services have resulted in a cumulative total of 70% or more of the overall Group audit fee in any financial year, then any further non-audit services carried out by the external auditor would be regarded as exceptional and will require the Committee's prior approval. The Committee receives quarterly reports of any non-audit services undertaken. The Committee must be satisfied that the external auditor's objectivity and independence would not be compromised in any way as a result of being instructed to carry out those services.

The total non-audit services provided by the Group's external auditor Deloitte LLP for the year ended 31 December 2016 were US$ 124,000 (2015: US$ 105,000) which comprised 34% (2015: 29%) of total audit and non-audit fees. The Committee is satisfied that the quantum and nature of the non-audit services provided by Deloitte LLP during the current year are such that the objectivity and independence of the external auditor have not been compromised.

REPORT OF THE AUDIT AND RISK COMMITTEE CONTINUED

Ethical conduct

Our Code of Conduct encourages all employees to report any potential improprieties in financial reporting or other matters. The Group operates a confidential whistleblowing hotline and all reports received are communicated to this Committee. Where appropriate, our internal audit team or other third party specialist may be asked to investigate issues and report to us on the outcome. Code of Conduct training is included as part of the Company induction process for all new employees who join the Group.

The Group operates an Anti-Bribery and Corruption Policy and is satisfied that appropriate policies and training are in place to deal with any instances of whistleblowing and to ensure that appropriate follow up action is taken on a timely basis.

This is the first year the Modern Slavery Act 2015 ("the Act") is in effect for the Group. The Committee was involved in reviewing the activities undertaken by Management to ensure compliance with the Act. The Group's statement on Anti-Slavery and Human Trafficking can be found on the GMS website.

Simon Batey
Audit and Risk Committee Chairman
27 March 2017

REPORT OF THE REMUNERATION COMMITTEE

* Mike Straughen stepped down from the Board and the Remuneration Committee with effect from 1 January 2017. The Report of the Nomination Committee contains further information on this matter.

Dear Shareholders,

On behalf of the Remuneration Committee ("the Committee"), I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2016. Conditions in the energy industry remained challenging throughout the year and against the continued market backdrop of low oil prices, the Group has implemented a number of cost-saving initiatives, including salary reductions across the business. The Committee appreciates the commitment and dedication shown by all members of staff during this challenging period.

Our remuneration arrangements have been designed in accordance with the principles set out in the UK Corporate Governance Code and current market and best practices for UK listed companies. They also take into account market practice and labour laws in the local UAE market.

Our aim is to ensure that remuneration arrangements appropriately and responsibly incentivise Executive Directors and senior management to achieve the Group's strategic objectives, in turn creating value for the Company's shareholders. To this end, the overall remuneration structure for executives comprises:

- base salary, benefits and allowances – set at a level appropriate to the sector and geographic markets in which we operate;
- an annual bonus – based on measures of annual financial and strategic performance; and
- a share-based Long Term Incentive Plan – normally based on growth in a financial measure such as earnings per share and total shareholder return.

Further details of this structure are set out on the following pages.

During the year the Company fulfilled a number of key financial, operational and strategic targets including targets such as adjusted EBITDA margin, Total Recordable Injury Rate, delivery of new build SESVs on schedule and on budget, and progression of the cantilever system.

Performance and remuneration for 2016

For 2016, the profit after tax performance being 25% of the total annual bonus opportunity, was below the threshold required for a payment under this part of the annual bonus scheme. However adjusted EBITDA margin, Total Recordable Injury Rate and progress against strategic, financial and operational objectives were achieved within or in excess of the target ranges, so that overall the CEO achieved the maximum pay out in these categories. As such the bonus payable to the CEO constituted 75% of salary which resulted in a US$ 323,000 bonus to be settled in cash – for more details, see page 56.

Review of the remuneration policy

The existing Directors' Remuneration Policy is not subject to renewal this year and the Remuneration Committee believes that the current approved policy, which received over 99% support from investors when it was voted on in 2015, continues to appropriately align shareholders' interests and the Company's strategy. Accordingly there are no proposed changes in our Remuneration Policy for 2017. However, we will continue to review our Remuneration Policy and targets for future variable pay awards so that we can remain confident that our policy reflects the Company's strategic objectives. The Remuneration Policy has been included in full on pages 48 to 53, for ease of reference alongside the Annual Remuneration Report.

Remuneration arrangements for 2017 and beyond

The Committee regularly reviews current market conditions within the industry and aligns remuneration levels as appropriate. In setting targets for the 2017 annual bonus, the Committee has been mindful of the continuing challenging market conditions being experienced in the industry.

The Annual Remuneration Report will be subject to an advisory shareholder vote at the 2017 AGM; at both previous AGM's the Remuneration Report was supported by over 98% of investors. The Committee is dedicated to ensuring that our shareholders understand and support our policy and therefore we welcome questions and feedback regarding our remuneration structures.

W. Richard Anderson
Remuneration Committee Chairman
27 March 2017

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Directors' Remuneration Policy Report

This part of the report, which is not subject to audit, sets out the remuneration policy for the Company and has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The policy has been developed taking into account the principles of the UK Corporate Governance Code and the views of our major shareholders. The Directors' Remuneration Policy was approved at the Company's Annual General Meeting held in 2015. No changes have been made to the Directors' Remuneration Policy in 2017, other than an update to the remuneration scenario charts to reflect the latest fixed remuneration arrangements. The Directors' Remuneration Policy has been included below for ease of reference.

Policy overview

The Committee assists the Board in its responsibilities in relation to remuneration, including making recommendations to the Board on the Company's policy on executive remuneration.

The Company's policy is to provide remuneration to executives to reflect their contribution to the business, the performance of the Group, the complexity and geography of the Group's operations and the need to attract, retain, and incentivise executives. The Committee seeks to provide remuneration packages that are simple, transparent and aligned with UK best and local UAE market practice, whilst providing an appropriate balance between fixed and variable pay that supports the delivery of the Group's strategy.

Summary of the Directors' Remuneration Policy

The following table sets out the Directors' Remuneration Policy.

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance criteria
Base salary	• To attract, retain and motivate individuals of the necessary calibre to execute the Group's strategy	• Normally reviewed annually by the Committee or, if appropriate, in the event of a change in an individual's position or responsibilities • The level of base salary reflects the experience and capabilities of the individual as well as the scope and scale of the role • Any increases to base pay will take into account individual performance as well as the pay and conditions in the workforce	• There is no prescribed maximum annual increase • When determining the level of any change in compensation, the Committee takes into account: – Remuneration levels in comparable organisations in the UAE and the GCC – Remuneration levels in the international market – Increases for the workforce generally – Changes to an individual's role, including any additional responsibilities	N/A
Annual bonus plan	• To encourage and reward delivery of the Group's annual financial and operational objectives	• Performance measures and targets are reviewed annually by the Committee and are linked to the Group's key strategic and financial objectives • The bonus will normally be paid wholly in cash; however the Committee has the discretion to defer a proportion of the bonus in GMS shares or cash • Clawback (or malus in the event of any deferral) provisions apply in the event of a material misstatement of the Group's financial results or an error in the calculation of performance targets. Clawback and/or malus can be applied for three years from the end of the financial year to which a payment relates	• Normal maximum opportunity of 100% of salary (exceptional limit 150% of salary)	• The majority of the annual bonus will be based on Group financial performance • The Committee has discretion to vary bonus payments downwards or upwards if it considers the outcome would not otherwise be a fair and complete reflection of the performance achieved by the Group and/or the Executive Director. Performance below threshold results in zero payment. Payments increase from 0% to 100% of the maximum opportunity for levels of performance between threshold and maximum performance targets

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance criteria
Long Term Incentive Plan (LTIP)	• To incentivise and reward the achievement of key financial performance objectives and the creation of long-term shareholder value • To encourage share ownership and provide further alignment with shareholders	• Annual awards of nil-cost options or conditional shares with the level of vesting subject to the achievement of stretching performance conditions measured over a three-year period • Performance targets are reviewed annually by the Committee and are set at such a level to motivate management and incentivise out-performance • Dividends that accrue during the vesting period may be paid in cash or shares at the time of vesting, to the extent that shares vest • Clawback provisions apply in the event of a material misstatement of the Company's financial results or an error in the calculation of performance targets. Clawback can be applied for three years from the end of the financial year in which an award vests	• Normal maximum opportunity of 200% of base salary (exceptional limit of 300% of base salary)	• Performance is assessed against metrics which will normally include a financial measure, such as earnings per share (EPS), and/or a measure linked to the Company's total shareholder return against an appropriate group of peers. Measures are captured independently • 30% of an award will vest for achieving threshold performance, increasing pro-rata to full vesting for achievement of maximum performance targets
End of service gratuity	• To provide an end of service gratuity, as required under the UAE Labour Law	• End of service gratuity contributions are accrued by the Company	• The maximum pay out to an employee is limited by UAE Labour Law to two years' base salary	N/A
Benefits	• To provide competitive and cost-effective benefits to attract and retain high-calibre individuals	• Private medical insurance for the executive and close family, death in service insurance, disability insurance, accommodation and payment of children's school fees	• Actual value of benefits provided	N/A
Allowances	• Allowances set to cover essential living costs where this is in line with local market practice	• Any increases to allowances will take into account local market conditions as well as the allowances provided to the workforce • Allowances relating to air travel and transport	N/A	N/A
Share ownership guidelines	• To encourage alignment with shareholders	• Executive Directors are required to build and maintain a shareholding equivalent to at least 100% of base salary through the retention of vested share awards or through open market purchases • A new appointment will be expected to reach this guideline in three to five years post-appointment • Executive Directors are required to retain 50% of the shares (net of tax) vesting under the incentive schemes until the guideline has been achieved	N/A	N/A

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Notes to table

Annual bonus performance measures
The annual bonus reflects key financial performance indicators linked to the Group's strategic goals. Financial targets are set at the start of the financial year with reference to internal budgets and taking account of market expectations. The balance is based on how well the individual performed against a range of stretching objectives relating to key strategic and operational objectives.

LTIP performance measures
The LTIP performance measures (which are currently EPS growth and total shareholder return (TSR) relative to companies in the FTSE 250 Index excluding financial services companies) reward long-term financial growth and significant long-term returns to shareholders. Targets are set on sliding scales that take account of internal strategic planning and external market expectations for the Group. Only modest rewards are available for achieving threshold performance with maximum rewards requiring substantial out-performance of challenging strategic plans approved at the start of each year.

Discretion
The Committee operates annual bonus and long term incentive arrangements for the Executive Director(s) in accordance with their respective rules, the Listing Rules and the HMRC rules where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of the plans. These include the following:

- who participates;
- the timing of the grant of award and/or payment;
- the size of an award (up to plan limits) and/or a payment;
- the annual review of performance measures, targets and weightings for the annual bonus plan and LTIP from year to year;
- discretion relating to the measurement of performance in the event of a change of control or restructuring;
- determination of a good leaver (in addition to any specified categories) for incentive plan purposes;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends); and
- the ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose.

Awards granted prior to approval of policy
For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to the Company to honour any commitments entered into with current or former Directors (such as the vesting or exercise of past share awards granted pre- or post-IPO but before the AGM at which this policy is approved by shareholders).

How remuneration of Executive Directors differs from employees generally, and how their views are taken into account in setting remuneration policy

When considering the structure and levels of Executive Director Remuneration, the Committee reviews base salary and annual bonus arrangements for the management team, to ensure that there is a coherent approach across the Group. The annual bonus plan operates on a similar basis across the senior management team. The key difference in the Executive Director Policy is that remuneration is more heavily weighted towards variable pay than that of other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the Executive Director(s).

The Committee does not formally consult with employees in respect of the design of the Executive Director Remuneration Policy, however the Human Resources Director is available to discuss issues relating to the wider employee population.

Consideration of shareholder views

The Company is committed to maintaining good communications with investors. The Committee considers the AGM to be an opportunity to meet and communicate with investors, giving shareholders the opportunity to raise any issues or concerns they may have. In addition, the Committee will seek to engage directly with major shareholders and their representative bodies should any changes be planned to the Directors' Remuneration Policy or if the Committee wishes to make material changes to how Policy will be implemented.

Following the Company's AGM in 2017, details of votes cast for and against the resolution to approve the Annual Report on Remuneration will be included in the next Annual Report on Remuneration published following the AGM.

The Company is required to prepare, and seek shareholder approval for an updated Directors' Remuneration Policy at least once every three years.

Directors' recruitment and promotions

The policy on the recruitment or promotion of an Executive Director takes into account the need to attract, retain and motivate the best person for each position, while at the same time ensuring a close alignment between the interests of shareholders and management, as follows:

Base salary	The base salary for a new appointment will be set taking into account the skills and experience of the individual, internal relativities and the market rate for the role as identified by any relevant benchmarking of companies of a comparable size and complexity. If it is considered appropriate to set the salary for a new Executive Director at a level which is below market (for example, to allow them to gain experience in the role) their salary may be increased to achieve the desired market positioning by way of a series of phased above inflation increases. Any increases will be subject to the individual's continued development in the role.
End of service gratuity, benefits and allowances	End of service gratuity, benefits and allowances will be set in line with the policy above, reflective of typical market practice and the Labour Law for the UAE. The Committee may also approve the payment of one-off relocation-related expenses and legal fees incurred by the individual. In the event of an Executive Director being recruited to work outside the UAE, additional benefits, pension provision and/or allowances may be provided in line with local market practice.
Annual bonus and LTIP	The Company's incentive plans will be operated, as set out in the policy table above, albeit with any payment pro-rata for the period of employment and with the flexibility to use different performance measures and targets, depending on the timing and nature of the appointment.
Remuneration foregone	The Committee may offer cash and/or share-based elements to compensate an individual for remuneration and benefits that would be forfeited on leaving a former employer, when it considers these to be in the best interests of the Group (and therefore shareholders). Such payments would take account of remuneration relinquished and would mirror (as far as possible) the delivery mechanism, time horizons and performance requirement attached to that remuneration. Where possible this will be facilitated through existing share plans as set out in the policy table above, but if not the Committee may use the provisions of 9.4.2 of the Listing Rules.
Internal appointments	In the case of an internal appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its original terms stipulated on grant or adjusted as considered desirable to reflect the new role.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Directors' service agreements and payments for loss of office

The Committee seeks to ensure that contractual terms of the Executive Director's service agreement reflect best practice.

Notice period	The CEO's service agreement is terminable by either the Company or the Director on 12 months' notice. In circumstances of termination on notice the Committee will determine an equitable compensation package, having regard to the particular circumstances of the case. The Committee has discretion to require notice to be worked, to make payment in lieu of notice or to place the Director on gardening leave. The Company may terminate the appointment summarily with immediate effect if the Director is guilty of gross misconduct in accordance with relevant provisions of the UAE labour law.
Payment in lieu of notice	In case of payment in lieu, base salary, allowances, benefits and end of service gratuity will be paid for the period of notice served or paid in lieu. If the Committee believes it would be in shareholders' interests, payments would be made either as one lump sum or in equal monthly instalments and in the case of payment in lieu will be subject to be offset against earnings elsewhere.
Annual bonus	An annual bonus may be payable in respect of the period of the bonus plan year worked by the Director; there is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked.
LTIP	Outstanding share awards under the LTIP are subject to the rules which contain discretionary provisions setting out the treatment of awards where a participant leaves for designated reasons (i.e. participants who leave early on account of injury, disability or ill health, death, a sale of their employer or business in which they were employed, statutory redundancy, retirement or any other reason at the discretion of the Committee). In these circumstances a participant's awards will not be forfeited on cessation of employment and instead will continue to vest on the normal vesting date or earlier at the discretion of the Committee, subject to the performance conditions attached to the relevant awards. The awards will, other than in exceptional circumstances, be scaled back pro-rata for the period of the incentive term worked by the Director.
Other payments	In addition to the above payments, the Committee may make any other payments determined by a court of law in respect of the termination of a Director's contract.
Change of control	In the event of a change of control all unvested awards under the LTIP would vest, to the extent that any performance conditions attached to the relevant awards have been achieved.

The date of the CEO's Executive Service Agreement is 12 March 2014. The service contract is available for inspection during normal business hours at the Company's registered office, and available for inspection at the AGM.

External appointments

The Committee recognises that Executive Directors may be invited to become Non-executive Directors in other companies and that these appointments can enhance their knowledge and experience to the benefit of the Group. It is policy that Board approval is required before any external appointment may be accepted by an Executive Director. An Executive Director is permitted to retain any fees paid for such services. The current Executive Director does not hold any such external appointments.

Non-executive Directors' Remuneration Policy and terms of engagement

The following table sets out the components of the Non-executive Directors' remuneration package.

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance criteria
Non-executive Directors' fee	• Set to attract, retain and motivate talented individuals through the provision of market competitive fees	• Reviewed periodically by the Board or, if appropriate, in the event of a change in an individual's position or responsibilities • Fee levels set by reference to market rates, taking into account the individual's experience, responsibility and time commitments	• There is no prescribed maximum annual increase • The Board takes into account external market practice, pay increases within the Group, wider economic factors and any changes in responsibilities when determining fee increases	N/A
Non-executive Directors' benefits	• Travel to the Company's registered office	• Travel to the Company's registered office may in some jurisdictions be recognised as a taxable benefit	• Costs of travel, grossed-up where taxable	N/A

Non-executive Directors are appointed by letter of appointment for an initial period of three years, which are terminable by three months' notice on either side. However, it is the Company's intention to comply with provision B.7.1 of the UK Corporate Governance Code and accordingly all Directors will stand for annual re-election by shareholders at future AGMs until the Board determines otherwise. The dates of the letters of appointment of the Chairman and Non-executive Directors are:

Simon Heale	Chairman	27 February 2014
H. Richard Dallas[1]	Non-executive Director	27 February 2014
Dr Karim El Solh	Non-executive Director	27 February 2014
Simon Batey	Independent Non-executive Director	27 February 2014
Mike Straughen[1]	Independent Non-executive Director	27 February 2014
W. Richard Anderson	Independent Non-executive Director	27 February 2014

1 Independent Non-executive Director Mike Straughen and Non-executive Director H. Richard Dallas stepped down from the GMS Board with effect from 1 January 2017.

The letters of appointment are available for inspection during normal business hours at the Company's registered office. For the appointment of a new Chairman or Non-executive Director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time.

Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and 9.8.6R of the Listing Rules. The Annual Report on Remuneration will be put to an advisory shareholder vote at the 2017 AGM. Sections of this report that are subject to audit, on pages 56 to 58 have been indicated.

Responsibilities of the Committee

The Remuneration Committee's responsibilities include:

- setting the strategy, structure and levels of remuneration of our Executive Directors and senior management;
- ensuring compliance with internal policies whilst also adhering to legislative regulations; and
- aligning the financial interests of the Executive Directors and other management and employees with the achievement of the Group's objectives.

The Remuneration Committee will assist the Board in fulfilling its responsibilities regarding all matters related to remuneration, including making recommendations to the Board on the Company's policy on executive remuneration. In reviewing executive remuneration, the Committee may set the over-arching principles, parameters and governance framework of the Group's Remuneration Policy and determine the individual remuneration and benefits package of the Executive Director(s) and the Company Secretary. In addition, the Committee monitors the structure and level of remuneration for the senior management team and is aware of pay and conditions in the workforce generally. The Committee also ensures full compliance with the UK Corporate Governance Code in relation to remuneration.

Members and activities of the Committee

The composition of the Remuneration Committee is in compliance with the Code which provides that all members of the Committee should be independent Non-executive Directors.

The members of the Committee during 2016 were W. Richard Anderson (Chairman), Simon Batey and Mike Straughen. All members were Independent Non-executive Directors. Effective from 1 January 2017 the members of the Committee are W. Richard Anderson (Chairman) and Simon Batey. The Chief Executive Officer, Chief Financial Officer and Human Resources Director are normally invited to attend for at least part of each meeting to allow the Committee to benefit from their contextual advice. The Group Chairman also normally attends meetings by invitation. The Company Secretary acts as Secretary to the Committee. These individuals are not present when their own remuneration is discussed.

The number of formal meetings held and the attendance by each member is shown in the table below. The Committee also held informal discussions as required.

	Number of meetings attended out of a potential maximum
W. Richard Anderson	3 out of 3
Simon Batey	3 out of 3
Mike Straughen[2]	3 out of 3

2 Independent Non-executive Director Mike Straughen and Non-executive Director H. Richard Dallas stepped down from the GMS Board with effect from 1 January 2017.

Performance evaluation of the Committee

In 2016, the performance evaluation of the Committee was conducted in conjunction with the Board evaluation process, a questionnaire was completed on an anonymous basis by each of the Committee members. The Committee has assessed the results of the evaluation process and noted that the Directors continue to be effective and that these Directors demonstrate commitment to their roles, including commitment of time for Committee meetings and any other duties.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

External advice received

In carrying out its responsibilities, the Committee seeks external remuneration advice as necessary. During the year, the Committee received independent advice on remuneration matters from New Bridge Street, an AON plc company. New Bridge Street is a signatory of the Remuneration Consultants Group Code of Conduct and any advice received is governed by that Code. The fees paid to New Bridge Street in 2016 were US$ 20,457.

During the year, the Committee also received independent advice on remuneration matters from Mercer Limited ("Mercer"). Mercer is a member of the Remuneration Consultants Group and adheres to the Voluntary Code of Conduct in relation to executive remuneration consulting in the UK. The fees paid to Mercer for advice in 2016 were US$ 17,515. Mercer also provided support to the Company in respect of the remuneration of the wider employee population. Mercer is a division of Marsh & McLennan Companies, Inc. ("MMC"). Another division of MMC provides broker services with regard to the Group medical insurance. However, notwithstanding this relationship, the Committee is satisfied that Mercer's advice to the Committee is objective and independent, as they are two distinct autonomous business divisions within MMC.

Shareholder voting at AGM

The 2016 Annual Report on Remuneration will be subject to an advisory shareholder vote at the 2017 AGM. At the AGM held in 2016, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

Resolution	Votes for	% of votes for	Votes against	% of votes against	Votes withheld	Total votes cast
To approve the Directors' Remuneration Report for the year ended 31 December 2015	280,045,922	98.81	3,360,057	1.19	523,513	283,929,492

Directors' Remuneration Policy

At the AGM held in 2015, votes cast by proxy and at the meeting in respect of the Directors' remuneration policy were as follows:

Resolution	Votes for	% of votes for	Votes against	% of votes against	Votes withheld	Total votes cast
To approve the Directors' Remuneration Policy	262,212,314	99.24	2,021,422	0.76	213,680	264,447,416

Statement of implementation of the Remuneration Policy for 2017

The Remuneration Policy adopted at the AGM held in 2015 will continue to be implemented during 2017 as follows:

Base salary

The CEO's base salary was reviewed on listing and also at the end of 2016 to determine the appropriate salary for the coming year. The CEO's base salary was reduced by 10% effective on 1 May 2016 however the Committee ensures that the remuneration package remains competitive in line with current market levels. As a point of comparison, decreases to salary levels for the workforce generally ranged from 0% to 10% during 2016, averaging 6%. Accordingly, base salary for 2017 will be as follows:

	Base salary from 1 January 2017 US$'000	Base salary from 1 January 2016 US$'000	% decrease
Duncan Anderson[1]	416	431	-3%

1 Duncan Anderson's remuneration is paid in UAE Dirhams and reported in US$ using an exchange rate of US$ 1/AED 3.67.

Allowances and benefits for 2017

The cash allowances for 2017 comprise payments to cover costs of air travel and transport and for 2017 will be as follows:

	Allowances from 1 January 2017 US$'000	Allowances from 1 January 2016 US$'000	% decrease
Duncan Anderson[1]	37	37	0%

1 Duncan Anderson's remuneration is paid in UAE Dirhams and reported in US$ using an exchange rate of US$ 1/AED 3.67.

Other benefits to be provided directly include accommodation, private medical insurance for the executive and close family, death in service insurance, disability insurance and payment of children's school fees.

Annual bonus for 2017

For 2017 the maximum annual bonus opportunity will be 100% of base salary. The annual bonus will be assessed against financial and personal objectives to provide a rounded assessment of the Group and individual's performance, weighted as follows:

Measure	Weighting
Adjusted EBITDA	20%
Adjusted EBITDA margin	20%
Net income	10%
Total Reportable Incident Rate (TRIR)	10%
Strategic, financial and operational objectives	40%
Total	**100%**

The Committee considers the targets to be commercially sensitive, but will provide details of performance against the financial targets retrospectively in next year's Annual Report on Remuneration.

The bonus will be paid wholly in cash. Clawback provisions apply in the event of a material misstatement of the Group's financial results or an error in the calculation of performance targets. Clawback can be applied for three years from the end of the financial year to which a payment relates.

Long term incentive plan to be granted in 2017

The Committee recognises that the difficult trading conditions within the Industry are expected to continue into 2017. Currently the Committee has not decided whether any LTIP would be granted for 2017. However if having considered all relevant information, the Committee decides to make an LTIP award to the CEO, this would not exceed 150% of the CEO's Salary. For any such LTIP award granted in 2017, should the Committee decide to grant a 2017 LTIP, the details of the award will be detailed within the RNS announcement and any adequate disclosure requirements would be met in the 2017 Annual Report.

End of service gratuity

As required under the UAE Labour Law, the Company accrues for the end of service gratuity entitlement in respect of the CEO, whereby the gratuity is 21 days' base salary (excluding fixed cash allowances) for each year of the first five years of employment and 30 days' wages for each additional year of employment thereafter, up to a limit of two years' total wages.

Fees for the Chairman and Non-executive Directors

The Chairman and Non-executive Directors' remuneration is determined by the Board, based on the responsibility and time committed to the Group's affairs and appropriate market comparisons. Individual Non-executive Directors do not take part in discussions regarding their own fees. The Chairman and Non-executive Directors receive no other benefits and do not participate in short-term or long-term reward schemes. A summary of the current fees and those for 2017 are set out below; no increase in fee levels is proposed in 2017. The Chairman and Non-executive Directors' annual fees were reduced by 10% effective on 1 May 2016 however the Committee ensures that the remuneration package remains competitive in line with current market levels. Please note that fees are determined in Pound Sterling.

	Annual fee 2017 £'000	Annual fee 2016 £'000	% decrease
Chairman	158	163	-3%
Non-executive Director base fee	45	47	-4%
Additional fees:			
Senior Independent Director	5	5	0%
Audit and Risk Committee Chair	5	5	0%
Remuneration Committee Chair	5	5	0%

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Directors' single total figure of remuneration earned in 2016 (audited)

The table below summarises Directors' remuneration received in 2016.

		Fixed element of pay			Pay for performance			
		Base salary US$'000	Allowances and benefits[1] US$'000	End of service gratuity[2] US$'000	Annual bonus[4] US$'000	Long-Term Incentives[5] US$'000	Other US$'000	Total remuneration US$'000
Executive Director								
Duncan Anderson[3]	**2016**	**431**	**168**	**48**	**323**	**–**	**–**	**970**
	2015	440	167	51	253	–	–	911

	Fees 2016 US$'000	Fees 2015 US$'000	Total remuneration 2016 US$'000	Total remuneration 2015 US$'000
Chairman[6]				
Simon Heale	**222**	268	**222**	268
Non-executive Directors[6]				
H. Richard Dallas[7]	**63**	77	**63**	77
Dr Karim El Solh	**63**	77	**63**	77
Simon Batey	**77**	92	**77**	92
Mike Straughen[7]	**63**	77	**63**	77
W. Richard Anderson	**70**	84	**70**	84
Non-executive Director total	**558**	675	**558**	675

1 Allowances include fixed cash allowances for air travel and transport. Other benefits include accommodation (US$ 87,094), private medical insurance for the executive and immediate family, death in service insurance, disability insurance and payment of children's school fees.
2 End of service gratuity is the provision accrued for in the year in accordance with UAE Labour Law. Pension provision is not a feature of UAE remuneration packages.
3 Duncan Anderson's remuneration is paid in UAE Dirhams and reported in US$ using an exchange rate of US$ 1/AED 3.67.
4 Annual bonus for the financial year.
5 Share plans vesting represent the value of LTIP awards where the performance period ends in the year.
6 The Chairman and Non-executive Directors' remuneration is paid in Pound Sterling and reported in US$ using an exchange rate of US$ 1.36/£1 during 2016.
7 Independent Non-executive Director Mike Straughen and Non-executive Director H. Richard Dallas stepped down from the GMS Board with effect from 1 January 2017.

Christopher Foll was appointed as an Alternate Director on 27 February 2014; he receives no remuneration for this appointment.

Performance against Annual bonus targets for 2016 (audited)

For 2016 the maximum annual bonus opportunity was set at 100% of base salary. The annual bonus was assessed against the following financial and personal objectives:

Measure	Weighting	Performance range (from zero to maximum pay-out)	Result	% of salary paid in cash
Profit after tax	25%	Less than US$ 75m – greater than US$ 87m	US$ 29.4m	0%
Adjusted EBITDA margin	25%	Less than 57% – 60%	60%	25%
Total Recordable Injury Rate (TRIR)	10%	Greater than 0.3 – 0	0.20	10%
Strategic, financial and operational objectives	40%	*	*	40%
Total	**100%**			**75%**

* Objectives set related to key operational, financial and strategic objectives, with targets for each aligned with delivery of the Company's annual corporate objectives and long-term financial plan. The details of these objectives are commercially sensitive, however in 2016 they included the delivery of certain new build SESVs on schedule and on budget, progression of the cantilever system and development and implementation of a strategic plan for the Group. These measures were fully achieved and therefore resulted in a payment of 40% out of a possible 40%.

Accordingly, the total payments under the annual bonus plan were US$ 323,000. The bonus will be paid wholly in cash. Clawback provisions apply in the event of a material misstatement of the Company's financial results or an error in the calculation of performance targets. Clawback can be applied for three years from the end of the financial year to which a payment relates.

LTIP awards vesting for 2016 (audited)

LTIP awards were granted 8th May 2014 over 184,327 ordinary shares. The LTIP was assessed against the following financial objectives:

Measure	Weighting	Performance range (from zero to maximum pay-out)	Result	% of award vesting	Number of shares vesting
EPS growth[1]	75%	Less than 15% - greater than 21.5%	Less than 15%	0%	0
TSR[2]	25%	Less than Median - Upper Quartile	Less than median	0%	0
Total	**100%**			**0%**	**0**

1 EPS Compound Annual Growth Rate (CAGR) is measured against a baseline for EPS at 31 December 2013.
2 TSR compared to the FTSE 250 Index, excluding financial services companies.

Long term incentive awards granted during the year and Directors' interests in share plan awards (audited)

The Committee granted an LTIP award to the CEO in May 2014 over shares with a value of 120% of base salary. Awards will vest, subject to the achievement of specific performance conditions and continued employment, in May 2017. In 2015 the Committee granted an LTIP award to the CEO in March 2015 over shares with a value of 150% of base salary. Awards will vest, subject to the achievement of specific performance conditions and continued employment, in March 2018. In 2016 the Committee granted an LTIP award to the CEO in March 2016 over shares with a value of 150% of base salary. Awards will vest, subject to the achievement of specific performance conditions and continued employment, in March 2019. A summary of the LTIP awards granted is provided in the tables below. The LTIP awards do not include consideration for accrued dividends during the performance period.

	Date of grant	Number of shares	Face value	Face value as a percentage of salary	End of performance period	Performance conditions
Duncan Anderson[1]	8 May 2014	184,327	US$ 497,863	120%	31 December 2016	See table below
Duncan Anderson[2]	25 March 2015	346,572	US$ 660,982	150%	31 December 2017	See table below
Duncan Anderson[3]	22 March 2016	677,168	US$ 653,873	150%	31 December 2018	See table below

1 Award face value (and value as a percentage of salary) is calculated using the closing share price on 8 May 2014, being 161.75p per share and assumes all performance conditions are met in full. The number of shares has been calculated using an exchange rate of £1: US$ 1.67. The minimum award available is nil.
2 Award face value (and value as a percentage of salary) is calculated using the closing share price on 24 March 2015, being 128p per share and assumes all performance conditions are met in full. The number of shares has been calculated using an exchange rate of £1: US$ 1.49. The minimum award available is nil.
3 Award face value (and value as a percentage of salary) is calculated using the closing share price on 22 March 2016, being 71p per share and assumes all performance conditions are met in full. The number of shares has been calculated using an exchange rate of £1: US$ 1.36. The minimum award available is nil.

The table below shows the performance conditions of the LTIP awards.

Performance condition	Weighting	Threshold target (30% vesting)	Stretch target (100% vesting)
Duncan Anderson (8 May 2014)			
EPS CAGR	75%	15% per annum	21.5% per annum
Relative TSR	25%	Median of index[1]	Upper quartile of index[1]
Duncan Anderson (25 March 2015)			
EPS CAGR	50%	20% per annum	26.5% per annum
Relative TSR	50%	Median of index[1]	Upper quartile of index[1]
Duncan Anderson (22 March 2016)			
EPS CAGR	50%	6.2% per annum	9.7% per annum
Relative TSR	50%	Median of index[1]	Upper quartile of index[1]

1 FTSE 250 Index excluding financial services companies.

Clawback provisions apply in the event of a material misstatement of the Group's financial results or an error in the calculation of performance targets. Clawback can be applied for three years from the end of the financial year in which an award vests.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Awards outstanding under the Company's LTIP comprise:

Grant date	No. of shares 01/01/16	Granted during the year	Vested during the year	Exercised during the year	Lapsed during the year	No. of shares 31/12/16	End of performance period	Vesting date
8 May 2014	184,327	–	–	–	–	184,327[1]	31/12/16	08/05/17
25 March 2015	346,572	–	–	–	–	346,572	31/12/17	25/03/18
22 March 2016	–	677,168	–	–	–	677,168	31/12/18	22/03/19
Total awards outstanding						**1,208,067**		

1 Awards made on 8 May 2014, will vest In May 2017 and lapse.

Directors' interests in ordinary shares (audited)
Through participation in performance-linked share-based plans, there is strong encouragement for Executive Directors to build and maintain a significant shareholding in the business.

As set out in the Directors' Remuneration Policy, the Committee requires any Executive Director to build and maintain a shareholding in the Company equivalent to 100% of base salary. Until this threshold is achieved they are required to retain no less than 50% of the net of tax value of any share award that vests. A new appointment will be expected to reach this guideline in three to five years post-appointment. The Chairman and Non-executive Directors are encouraged to hold shares in the Company but are not subject to a formal shareholding guideline.

The beneficial interests of the Directors and connected persons in the share capital of the Company at 31 December 2016 were as follows:

	Beneficially owned at 31 December 2016	Beneficially owned at 31 December 2015	Shareholding ownership requirement met?	Outstanding LTIP awards
Duncan Anderson	**2,014,622**	2,614,622	Yes	1,208,067
Simon Heale	**74,074**	74,074	N/A	–
H. Richard Dallas	**18,518**	18,518	N/A	–
Dr Karim El Solh	**296,296**	296,296	N/A	–
Simon Batey	**37,037**	37,037	N/A	–
Mike Straughen	**37,327**	37,327	N/A	–
W. Richard Anderson	**153,453**	153,453	N/A	–

1 There were no changes to the interests of the Directors in the ordinary shares of the Company in the period from 1 January 2017 to 10 March 2017.
2 Full details of the Directors' shareholdings and share allocations are given in the Company's Register of Directors' Interests, which is open to inspection at the Company's registered office during business hours.
3 There are no other share, share option schemes or outstanding share awards other than LTIP awards.
4 2,614,622 restricted shares were awarded to Duncan Anderson at IPO in settlement of outstanding share appreciation rights. These shares are fully vested and are no longer subject to a lock-in period.
5 Independent Non-executive Director Mike Straughen and Non-executive Director H. Richard Dallas stepped down from the GMS Board with effect from 1 January 2017.

Directors' pension entitlement (audited)
The Company does not operate a pension scheme and accordingly no element of remuneration is pensionable.

Payments to former directors (audited)
No payments were made to past Executive Directors during the year ended 31 December 2016.

Payments for loss of office (audited)
No payments were made in respect of loss of office during the year ended 31 December 2016.

Percentage change in remuneration levels

The table below shows the variance in base salary, allowances and benefits, and annual bonus for the CEO in the 2016 financial year, compared to that for the average employees:

	% change
Chief Executive Officer	
Base salary	-3%
Allowances and benefits	0%
Bonus	28%
All employees	
Base salary	-6%
Allowances and benefits	1%
Bonus	16%

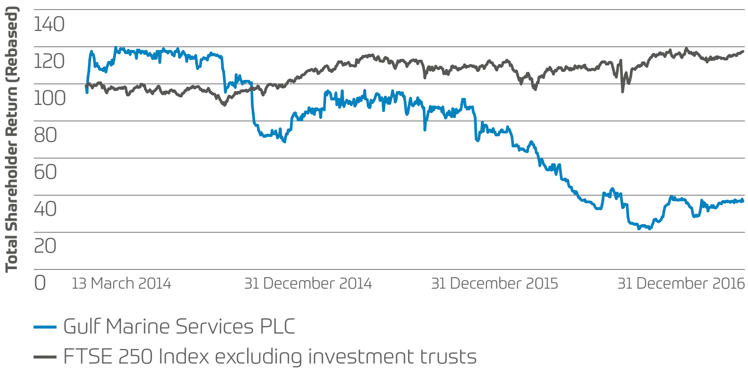
Relative importance of the spend on pay

The table below shows overall expenditure on pay in the whole Group in 2015 and 2016 financial years, compared to returns to shareholders through dividends:

	2016 US$'000	2015 US$'000	% change
Overall expenditure on pay	**38,254**	40,668	6%
Dividends proposed	**7,130**	8,489	-16%

Total shareholder return performance graph

This graph below shows the value, by 31 December 2016, of £100 invested in Gulf Marine Services PLC on 14 March 2014 (being the date that shares were first admitted to conditional trading) compared with the value of £100 invested in the FTSE 250 Index excluding financial services companies over the same period.



Source: Datastream (Thomson Reuters)

The total remuneration figures for the CEO during the 2016 financial year are shown in the table below. Consistent with the calculation methodology for the single figure for total remuneration, the total remuneration figure includes the total annual bonus award based on that year's performance and the LTIP award based on the three-year performance period ending in the relevant year. The annual bonus pay out and LTIP award vesting level as a percentage of the maximum opportunity are also shown for this year.

	Year ending 31 December			
	2016	2015	2014	2013
Total remuneration (US$'000)	**970**	911	1,003	826
Annual bonus %	**33%**	28%	35%	29%
LTIP vesting %	**–**	–	–	–

Approval of the Directors' Remuneration Report

The Directors' Remuneration Report, including the Annual Report on Remuneration, was approved by the Board on 27 March 2017 for presentation to shareholders at the AGM.

W. Richard Anderson

Remuneration Committee Chairman

27 March 2017

REPORT OF THE NOMINATION COMMITTEE

Committee members

- Chairman: Simon Heale
- Senior Independent Non-executive Director: Simon Batey
- Independent Non-executive Directors: W. Richard Anderson, Mike Straughen*
- Non-executive Director: Dr Karim El Solh

* Mike Straughen stepped down from the Board and the Nomination Committee with effect from 1 January 2017.

Dear Shareholders,

I am pleased to present the Nomination Committee report for 2016. Our role is to assist the Board in the key areas of composition and succession planning for the Board and the senior management of the Group. Having an appropriate range of high-calibre Directors on our Board is key to determining and maximising success in the Group's strategic objectives. Establishing appropriate succession planning for the existing Board and senior management is essential to ensuring that this success can be sustained over the long term.

The Nomination Committee's responsibilities include:

- regularly reviewing the composition, structure and size of the Board and its Committees;
- considering succession planning for Directors and other senior executives and in doing this considering diversity, experience, knowledge and skillsets; and
- leading the process for Board appointments and making recommendations to the Board in respect of new appointments.

Board and Committee composition

Throughout the year, the composition of the Nomination Committee remained in compliance with the Code which provides that independent non-executive Directors should comprise the majority of the Committee.

The annual Board and Committee evaluation process led by the Nomination Committee, which is discussed further below, brought about a review of the appropriate composition of the Board and its Committees. Following the evaluation, it was determined that it would be appropriate to reduce the size of the Board. It was concluded that this would provide a Board that was of a composition more suited to the size of the Company with decision making operating at maximum effectiveness, whilst also allowing the Board to retain an appropriate balance of independence, and to remain in compliance with the Code.

Factors considered during the review process included: the nature of the Company; the need to ensure that the Board is of a size which facilitates effective decision making; and the need to retain an appropriate balance of skills, experience, independence, industry expertise, and knowledge, on the Board. The provision of the Code applicable to smaller companies (being companies outside of the FTSE 350), recommends that a smaller company, such as GMS, requires only two independent non-executive Directors on its Board.

Accordingly the Committee recommended to the Board that an independent non-executive Director and a non-executive Director of the Company step down. The Board agreed that Mike Straughen and H. Richard Dallas would step down from their roles, with effect from 1 January 2017. The Board determined that the Board, following this reduction in size, continued to be able to discharge its responsibilities effectively.

As part of the above review, the Nomination Committee considered the composition of each of the Board's Committees. Following a recommendation from the Nomination Committee, the Board decided it would be appropriate for non-executive Director Dr Karim El Solh to step down from the Nomination Committee, whilst continuing to be invited to attend meetings as an observer, from 1 January 2017. Accordingly, the Nomination Committee (and all other Committees of the Board) continues to remain in compliance with the Code.

Board and Committee evaluation

Critical to the success of our Board and Committees in achieving their aims is the effectiveness in which they operate and accordingly, we take our evaluation very seriously. The Committee also identifies the future training requirements of the Board, as part the Board's ongoing development programme.

In 2016, a Board evaluation process was conducted by way of a questionnaire, which was completed on an anonymous basis by each of the Directors. The Committee has assessed the results of the Board evaluation process and, in light of the findings, we have concluded that the performance of each of the Directors standing for re-election continues to be effective and that these Directors demonstrate commitment to their roles, including commitment of time for Board and Committee meetings and any other duties. As a smaller company, under the Code, the Company is not required to carry out an externally facilitated evaluation within a given timeframe. However, the Board considers an externally facilitated evaluation to be a valuable exercise and intends to undertake one for 2017, being the third full financial year after the Company's listing in 2014.

My performance as Chairman is evaluated by the other non-executive Directors. The evaluation, led by the Senior Independent non-executive Director, is carried out at least annually and also takes into account the views of the senior management team.

Re-election of Directors

The biographical details of the Directors can be found on pages 38 to 39. All of the Company's current Directors will stand for re-election at the 2017 Annual General Meeting (AGM).

The terms and conditions of appointment of non-executive Directors, which includes their expected time commitment, are available for inspection at the Company's registered office.

Diversity

Currently all members of the Board are male however the Nomination Committee very much takes into account the benefits of diversity on the Board, including gender and variety of experience. The Board remains diverse in terms of the range of nationality and international experience of its members. The Directors' broad range of experience and expertise covers relevant technical, operational, financial, governance, legal and commercial expertise as well as the valuable experience of operating in the energy industry on an international basis.

The Company aspires to diversify its Board further as part of its succession planning process. Whilst seeking to achieve this aim, the Company will not appoint an individual to the Board unless they are considered the best candidate for the role, whether male or female. The Corporate Social Responsibility section on pages 32 to 33 provides further information on the Group's workforce.

Succession planning

The Committee is aware of its responsibilities in relation to Board and senior management succession plans to ensure that unforeseen changes are managed effectively and efficiently, without disruption to the Group's strategy or day-to-day operations. The Committee has developed a comprehensive succession planning process for senior management across the Group. It includes encouragement and facilitation of the development of each individual, including internal career progression opportunities as they arise.

The Board and Nomination Committee are satisfied that the individuals' currently fulfilling key senior management positions in the organisation have the requisite depth and breadth of skills, knowledge and experience.

Simon Heale
Nomination Committee Chairman
27 March 2017

DIRECTORS' REPORT

The Directors of Gulf Marine Services PLC present their Annual Report and audited financial statements of the Company and the Group for the year ended 31 December 2016. This Directors' Report, prepared in accordance with the requirements of the Companies Act 2006, the UK Listing Authority's Listing Rules, and Disclosure and Transparency Rules, contains certain statutory, regulatory and other information.

Strategic Report

Details of the Group's strategy and business model during the year and the information that fulfils the requirements of the Strategic Report required by sections 414A to D of the UK Companies Act 2006 can be found in the Strategic Report section on pages 8 to 21 of this document, which forms part of this report by reference.

Corporate Governance

The Company's Corporate Governance Statement is set out on pages 38 to 61 and forms part of this report by reference.

Directors

A list of the Directors who served during the period and their biographies can be found in the Corporate Governance Report on pages 38 to 39.

Powers of Directors

Our Directors' powers are determined by UK legislation and our Articles of Association (the "Articles"), which are available on our website at www.gmsuae.com. The Articles may be amended by a special resolution of the members. The Directors may exercise all of the Company's powers provided that the Articles or applicable legislation do not stipulate that any such powers must be exercised by the members (shareholders).

Appointment and replacement of Directors

The rules about the appointment and replacement of Directors are contained in our Articles. They provide that Directors may be appointed by ordinary resolution of the members or by a resolution of the Directors. All our Directors must be approved by the Board before they stand for re-appointment by shareholders.

Directors wishing to continue to serve will seek re-election annually in accordance with provision B.7.1 of the UK Corporate Governance Code. Members may remove a Director by passing an ordinary resolution of which special notice has been given, in accordance with the Companies Act 2006.

Amendments to the Articles of Association

The Company may alter its Articles of Association by special resolution passed at a General Meeting of shareholders.

Indemnification of Directors

The Company has provided indemnification for Directors in accordance with the Company's Articles and the Companies Act 2006. As far as is permitted by legislation, all Officers of the Company are indemnified out of the Company's own funds against any liabilities and associated costs which they could incur in the course of their duties for the Company, other than any liability to the Company or an associated company.

Compensation for loss of office

The Company does not have agreements with any Director that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover.

Share capital and control

Details of the Company's issued share capital as at 31 December 2016 can be found in note 13 to the consolidated financial statements, on page 93. The Company's share capital comprises ordinary shares, which are listed on the London Stock Exchange.

Ordinary shares

Holders of ordinary shares are entitled to receive dividends (when declared by the Board or approved by members), receive copies of the Company's Annual Report, attend and speak at general meetings of the Company, appoint proxies and exercise voting rights.

There are no restrictions on the transfer, or limitations on the holding, of ordinary shares and no requirements to obtain approval prior to any transfers. No ordinary shares carry any special rights with regard to control of the company and there are no restrictions on voting rights. Major shareholders have the same voting rights per share as all other shareholders.

There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting rights.

Shares acquired through our share schemes and plans rank equally with the other shares in issue and have no special rights.

Authority to purchase the Company's own shares

The Company did not acquire any of its own shares in the financial year to 31 December 2016 or in the period between the year end and the date of this report.

The Company is due to have its 2017 AGM on 16 May 2017 and the Directors will be seeking approval from shareholders, to authorise the Company to purchase up to 10% of its existing ordinary share capital. This authority would expire at the Company's 2018 AGM; however, it is intended that this authority be renewed each year. For more information on this resolution refer to the Notice of AGM and explanatory notes on pages 116 to 121.

Substantial shareholders

The Directors are aware of the following substantial interests in the shares of the Company:

Significant direct/indirect interest	As at 31 December 2016 Number of shares	As at 31 December 2016 % voting rights	As at 10 March 2017 Number of shares	As at 10 March 2017 % voting rights
Green Investment Commercial Investments	169,119,602	48.39	157,019,602	44.92
Aberforth Partners	28,056,885	8.03	28,322,088	8.10
Horizon Energy	21,136,703	6.05	21,136,703	6.05
Al Ain Capital	21,136,703	6.05	21,136,703	6.05
Standard Life Investments	9,418,056	2.69	15,291,982	4.38
Abu Dhabi Islamic Bank	10,142,458	2.90	10,142,458	2.90
Citibank (Switzerland)	10,060,338	2.88	9,163,835	2.62

Significant agreements

As at 31 December 2016 the Company was party to the following significant agreements that take effect, alter or terminate, or have the potential to do so, on a change of control of the Company:

Relationship Agreement
The Relationship Agreement dated 14 March 2014 amongst Green Investment Commercial Investments LLC (GICI), Ocean Investments Trading LLC (Ocean), Horizon Energy LLC (Horizon), Al Ain Capital LLC (Al Ain) and the Company provides that it shall terminate on there ceasing to be a "Principal Shareholder" holding at least 10% of the issued share capital of the Company or shares carrying at least 10% of the aggregate voting rights in the Company from time to time. In this context a "Principal Shareholder" is any of (a) GICI and Ocean together, (b) Horizon and (c) Al Ain.

The relevant Principal Shareholder shall be entitled to appoint one Director to the Board, and for so long as a Principal Shareholder Group holds 15% or more of the issued ordinary share capital of the Company, the relevant Principal Shareholder shall be entitled to appoint two Directors to the Board. Currently the relevant Principal Shareholder has appointed Dr Karim El Solh. The Company has further agreed that, subject to the Gulf Capital Shareholders (comprising Green Investment Commercial Investments LLC, and Ocean Investments Trading LLC, both beneficially owned by GC Equity Partners Fund II, L.P.), having the requisite aggregate shareholding to appoint a Director as described above: (i) Christopher Foll shall be given notice of, be invited to, and have the right to attend meetings of the Board as an observer, but shall not be entitled to vote and (ii) H. Richard Dallas shall be given notice of, be invited to, and have the right to attend meetings of the Remuneration Committee as an observer, but shall not be entitled to vote.

The Relationship Agreement has not been amended since adoption and is in compliance with the Listing Rules. The relevant Principal Shareholder has not appointed a second Director to the Board following the stepping down from the Board of H. Richard Dallas, effective from 1 January 2017. Dr Karim El Solh was appointed to the Board by the relevant Principal Shareholder in 2014.

Initial supplemental purchase undertaking
The Group refinanced its debt with a syndicate of banks coordinated by Abu Dhabi Commercial Bank PJSC (ADCB) in 2015. The initial supplemental purchase undertaking made on 29 November 2015 by Gulf Marine Middle East FZE (GMME), a member of the Group, to and for the benefit of ADCB provides that, in the event of a person or persons acting in concert acquiring control of the Company, ADCB shall be entitled to serve a notice on GMME exercising its option to sell to GMME assets currently leased by GMME from ADCB under related finance lease arrangements. If ADCB serves such a notice following a change of control of the Company, GMME is obliged to purchase the leased assets in their then current condition on an "as is where is" basis at a price determined by a detailed formula set out in the undertaking.

Share incentive schemes
All of the Company's share-based employee incentive plans detailed in the Report of the Remuneration Committee on pages 47 to 59 contain provisions relating to a change of control of the Company. Vesting of outstanding awards and options on a change of control would normally be at the discretion of the Remuneration Committee, who would take into account the satisfaction of any applicable performance conditions at that time and the expired duration of the relevant performance period.

Executive service contracts
The service contracts for the Company's executive Directors and senior management include provisions applicable to a change of control in the Company. Further details of these service contracts are described in the Directors' Remuneration Report.

Operational contracts
The Group is party to a limited number of operational arrangements that have the potential to be terminated or altered on a change of control of the Company, but these are not considered to be individually significant to the business of the Group as a whole.

Risk regarding the use of financial instruments

The Group's financial risk management objectives and policies including the use of financial instruments are set out in note 34 to the consolidated financial statements on pages 100 to 102.

Post balance sheet events

The Board has decided to recommend a final dividend of 1.20 pence (1.50 cents) per ordinary share in respect of the year ended 31 December 2016. This is to be proposed at the Annual General Meeting. These final statements do not reflect this final dividend. There have been no other events subsequent to 31 December 2016 for disclosure.

Likely future developments

Information in respect of likely future developments in the business of the Company can be found in the Strategic Report on pages 8 to 21 and forms part of this report by reference.

Research and development

The Group did not undertake any research and development activities during the year (2015: none).

DIRECTORS' REPORT CONTINUED

Political donations

The Group made no political donations during the year (2015: nil).

The existence of branches outside the UK

The Group has branches in the Netherlands and Qatar.

Employees and policies

The Group operates an equal opportunities policy that aims to treat individuals fairly and not to discriminate on the basis of sex, race, ethnic origin or disability or on any other basis. Applications for employment are fully considered on their merits, and employees are given appropriate training and equal opportunities for career development and promotion.

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion opportunities to disabled employees wherever appropriate.

During the year, the policy of providing employees with information about the Group and keeping them up to date on financial, economic and other factors which affect the Group has been continued through internal media methods. Employees have also been encouraged to present their suggestions and views on the Group's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

Health and safety

Information on health and safety is provided on pages 14, 17, 20 and 24, and forms part of this report by reference.

Greenhouse gas emissions

Information on the Group's greenhouse gas emissions is set out in the Corporate Social Responsibility section on pages 32 to 33 and forms part of this report by reference.

Dividends

The Board recommended the policy of a constant dividend per share for 2016. The Board may decide to revise this policy if deemed appropriate.

The Board recommends a final dividend of 1.20 pence (1.50 cents) per share in respect of the 2016 financial year. Shareholders will be asked to approve the dividend at the AGM on 16 May 2017, for payment on 19 May 2017 to ordinary shareholders whose names are on the register on 18 April 2017.

Going concern

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

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

More information on the going concern status of the Group can be found in the going concern section of note 3 to the consolidated financial statements on page 81. Details of the Group's objectives and policies for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit and liquidity risk can be found in note 34 to the consolidated financial statements on pages 100 to 102. The principal risks and uncertainties facing the Group are set out on pages 19 to 21.

Information on the Group's longer-term viability is provided within the risk management section on pages 18 to 21.

Statement on disclosure to the external auditor

So far as each Director is aware, there is no relevant information, which would be needed by the Company's external auditor in connection with preparing its audit report (which appears on pages 68 to 72) of which the external auditor is not aware; and each Director, in accordance with section 418(2) of the Companies Act 2006, has taken all reasonable steps that he ought to have taken as a Director to make himself aware of any such information and to ensure that the external auditor is aware of such information.

Auditors

Deloitte LLP, the Group's auditors, have indicated their willingness to continue in office and in accordance with Section 489 of the Act, a resolution to re-appoint them will be put to the 2017 Annual General Meeting.

Annual General Meeting (AGM)

The Company's 2017 AGM will take place at 11.30am (UK time) on Tuesday 16 May 2017 at Linklaters LLP, One Silk Street, London, EC2Y 8HQ. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The notice of the AGM can be found on page 116 and on the Company's website. The Notice of AGM sets out the business of the Meeting and an explanatory note on all resolutions. Separate resolutions are proposed in respect of each substantive issue.

This Annual Report, including this Directors' Report, as well as the Strategic Report and the Corporate Governance Statement, was approved by the Board and signed on its behalf by:

John Brown
Company Secretary
27 March 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

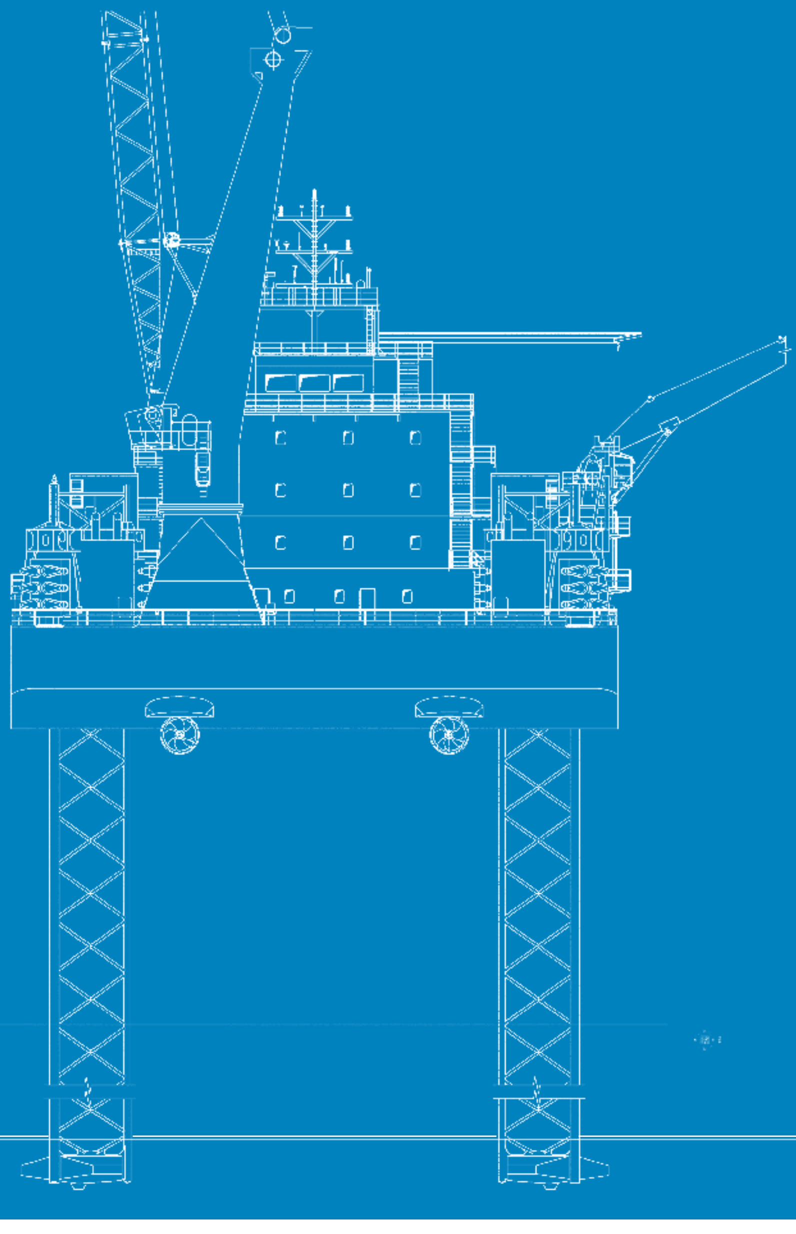
- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

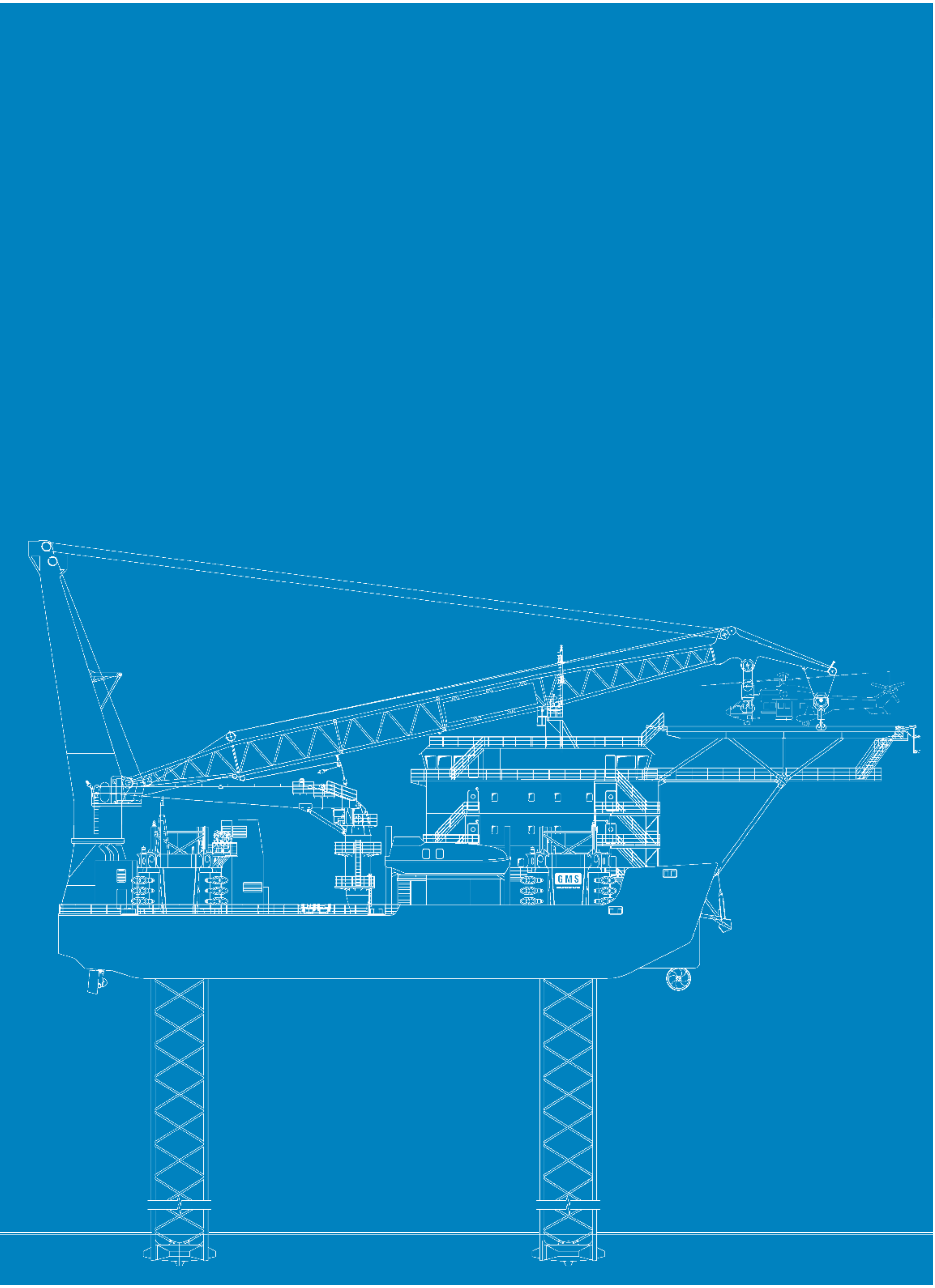
This responsibility statement was approved by the Board of Directors on 27 March 2017 and is signed on its behalf by:

Duncan Anderson
Chief Executive Officer
27 March 2017

John Brown
Chief Financial Officer
27 March 2017

FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GULF MARINE SERVICES PLC

Opinion on financial statements of Gulf Marine Services PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Statements of Financial Position;
- the Consolidated and Parent Company Cash Flow Statements;
- the Consolidated and Parent Company Statements of Changes in Equity; and
- the related notes 1 to 37 in respect of the Group and 1 to 12 in respect of the Parent Company.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: • Impairment of the Group's vessels; and • Revenue recognition. The risks included within our report are consistent with those included in our 2015 audit report, except that we no longer consider capitalisation of vessel costs to be a key risk as the Group's new building programme is coming to an end and we have not historically noted any significant findings in this area.
Materiality	The materiality that we used in the current year was US$ 3.5 million.
Scoping	We identified the Group's business to be a single component, and therefore all operations of the Group were subject to a full scope audit. All audit work for the Group was performed directly by the audit engagement team.
Significant changes in our approach	Except for the change in key risks outlined above, there have been no significant changes in our audit approach compared to the prior year.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 3 to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the strategic report on page 21.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 21 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 19 to 21 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 3 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation on page 21 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.
We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Impairment of the group's vessels

Risk description	The group's vessels are its sole revenue generating assets, with a carrying value of US$ 730.3 million at 31 December 2016 (2015: US$ 706.2 million) which represents 77% of the Group's total assets at that date. Their recoverable amount is based on an assessment of the higher of fair value less cost to sell and value in use. Estimates of fair value less costs to sell take into consideration vessel valuations from an independent ship broker, whilst value in use is calculated as the net present value of estimated future cash flows, in each case on a vessel by vessel basis. In the current year, there is a risk that recoverable amounts could be adversely impacted by the significant and prolonged fall in prevailing oil & gas prices, due to the resultant impact on the Group's customer base in the oil & gas industry. Management has assessed recoverable amount based on the estimated value in use of each vessel, which in all cases was higher than fair value less costs to sell. The key assumptions utilised in these calculations include, on a vessel by vessel basis: • forecast utilisation; • forecast day rates; • cost assumptions; and • discount rate. As referenced in note 4 of the financial statements the carrying value of the Group's vessels is considered by management as a critical accounting judgement and key source of estimation uncertainty. The Group has recorded a US$ 21.3 million impairment charge in respect of 4 of its vessels. Further details of the Group's vessels and the current year impairment charge is provided in note 8 to the financial statements and in the Audit and Risk Committee Report on page 44.
How the scope of our audit responded to the risk	We challenged the assumptions made by management on a vessel by vessel basis by reference to publicly available information, our knowledge of the Group and industry and the Group's most recent budget. This included: • understanding the process by which management has derived its value in use estimates; • evaluating the design and implementation of management's controls to address the risk of impairment of the Group's vessels; • comparing forecast utilisation and day rates to those achieved in prior periods; • comparing forecast day rates to signed contracts for contracted periods, and challenging the basis adopted for day rates elsewhere in the calculations; • using our internal valuation specialists to perform an independent recalculation of the discount rate; • performing sensitivity tests tailored to each vessel class, using more conservative assumptions for future day rates to take into consideration the current market conditions described above; and • testing the clerical accuracy of the calculations.
Key observations	We are satisfied that the impairment charges recorded by management are appropriate and that no additional impairments have arisen during the year.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GULF MARINE SERVICES PLC CONTINUED

Revenue recognition

Risk description	Each of the Group's vessels earns revenues on the basis of a specific contract with the relevant counterparty. Each contract will typically specify a day rate, which can vary significantly by vessel and by counterparty, as well as a standby rate for when the vessel is available for use but not operational. Certain contracts also include amounts payable to the Group in respect of mobilising the vessel at the inception of the contract and/or demobilising the vessel at the end of the contract term. As disclosed in the accounting policies in note 3 lump-sum fees received for equipment moves (and related costs) and fees received for contract-specific equipment modifications or upgrades are initially deferred and amortised on a straight-line basis over the term of the contract. The costs of related equipment modifications or upgrades are capitalised and depreciated in accordance with the Group's fixed asset capitalisation policy. Demobilisation revenue at the end of the contract is recognised when received. Accordingly, in order for revenue to be recorded appropriately, for each vessel the company needs to: • accurately record the number of days both on hire and on standby (to ensure both completeness and accuracy); • apply the correct contractual rates, net of any discounts, to the number of days in each of these categories (to ensure accuracy); and • ensure mobilisation and demobilisation revenue has been appropriately recorded in accordance with the terms of the contract and the accounting policies above. Due to the significant variability in contract terms by vessel and by counterparty, we have identified the complete and accurate recording of revenue as a key audit risk. Further details of revenue arising in the year is provided in note 23 to the financial statements.
How the scope of our audit responded to the risk	We have obtained a detailed schedule analysing the revenue earned by month and by vessel, which specifies both the number of days on hire/on standby and the relevant contractual rate, and agreed this to the general ledger. On a sample basis we have : • agreed the days on hire/standby to a report from the Group's operations department, to confirmation of days worked signed by the customer, as well as to invoice (which state the number of days to which it relates); • performed an analysis on the number of days on hire/standby, obtaining supporting explanation for any gaps and reconciling this to our knowledge of each vessel's operational performance during the year; • agreed the day rate to the underlying contract; • recalculated the revenue figure and agreed this to both invoice and either subsequent cash received or the year end debtors schedule; and • for mobilisation and demobilisation revenue, determined whether revenue has been recorded in accordance with the terms of the contract and the Group's accounting policy in this area. We have also evaluated the design and implementation of management controls to address the risk of inappropriate revenue recognition.
Key observations	Our testing showed that revenue has been recorded in accordance with the terms of the underlying contracts and the Group's accounting policies in this area. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	US$ 3.5 million (2015: US$ 3.8 million)
Basis for determining materiality	We considered a number of metrics, being pre-tax profit for the year (excluding impairments), average pre-tax profit for the last three years (excluding impairments), net assets and earnings before interest, tax, depreciation and impairment ("adjusted EBITDA").
Rationale for the benchmark applied	We consider that users of the financial statements are focused on both the group's short term financial performance, reflected in its pre-tax profits and adjusted EBITDA, as well as its longer term earnings potential as reflected in the scale of its net assets base. In considering pre-tax profit we have excluded impairments as they would distort materiality year-on-year. US$ 3.5 million represents 6.7% of 2016 pre-tax profit (excluding impairments), 5% of average pre-tax profit for the last three years (excluding impairments), less than 1% of net assets and 3.3% of adjusted EBITDA.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of 5% of Group materiality, being US$ 175,000 (2015: 2% of Group materiality, being US$ 76,600), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We have increased the threshold to 5% to reflect the low levels of misstatements identified historically. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we identified the Group's business to be a single component, and therefore all operations of the Group were subject to a full scope audit. During the course of the audit, senior members of the UK audit team, including the Senior Statutory Auditor, supervised the members of the audit team who are based in the United Arab Emirates, and visited the United Arab Emirates operations during the interim and completion stages of the audit.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records	Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company financial statements are not in agreement with the accounting records and returns. **We have nothing to report in respect of these matters.**
Directors' remuneration	Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. **We have nothing to report arising from these matters.**
Corporate Governance Statement	Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. **We have nothing to report arising from these matters.**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GULF MARINE SERVICES PLC CONTINUED

Matters on which we are required to report by exception continued

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:
- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

David Paterson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
27 March 2017

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

	Notes	2016 US$'000	2015 US$'000
Revenue	23	**179,410**	219,713
Cost of sales		**(83,761)**	(87,491)
Impairment charge	8, 10	**(21,307)**	–
Gross profit		**74,342**	132,222
General and administrative expenses		**(21,636)**	(20,875)
Finance income	25	**75**	640
Finance expense	24	**(20,181)**	(34,134)
Other loss		**(759)**	(740)
Foreign exchange loss, net	26	**(1,023)**	(32)
Profit for the year before taxation		**30,818**	77,081
Taxation charge for the year	20	**(1,377)**	(2,058)
Profit for the year	26	**29,441**	75,023
Other comprehensive income – items that may be reclassified to profit and loss:			
Exchange differences on translating foreign operations		**(1,378)**	(817)
Total comprehensive income for the year		**28,063**	74,206
Profit attributable to:			
Owners of the Company		**29,509**	74,776
Non-controlling interests	33	**(68)**	247
		29,441	75,023
Total comprehensive income attributable to:			
Owners of the Company		**28,131**	73,959
Non-controlling interests	33	**(68)**	247
		28,063	74,206
Earnings per share			
Basic (cents per share)	7	**8.44**	21.39
Diluted (cents per share)	7	**8.34**	21.25

All results are derived from continuing operations in each year.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	Notes	2016 US$'000	2015 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	**852,398**	796,261
Intangibles	9	**–**	375
Dry docking expenditure	10	**4,327**	6,510
Deferred tax asset		**455**	–
Fixed asset prepayments		**66**	261
Total non-current assets		**857,246**	803,407
Current assets			
Trade and other receivables	11	**23,945**	59,876
Cash and cash equivalents	12	**61,575**	60,834
Total current assets		**85,520**	120,710
Total assets		**942,766**	924,117
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	**57,929**	57,929
Share premium account	13	**93,075**	93,075
Restricted reserve	17	**272**	272
Group restructuring reserve	14	**(49,710)**	(49,710)
Share option reserve	15	**1,702**	1,409
Capital contribution	16	**9,177**	9,177
Translation reserve		**(2,015)**	(637)
Retained earnings		**333,259**	311,760
Attributable to the owners of the Company		**443,689**	423,275
Non-controlling interests	33	**560**	628
Total equity		**444,249**	423,903
Non-current liabilities			
Bank borrowings	19	**401,599**	347,253
Obligations under finance leases	31	**–**	39,577
Provision for employees' end of service benefits	21	**3,181**	3,391
Deferred tax liability		**13**	13
Total non-current liabilities		**404,793**	390,234
Current liabilities			
Trade and other payables	22	**28,787**	33,883
Current tax liability		**2,832**	3,208
Bank borrowings	19	**22,021**	17,863
Obligations under finance leases	31	**40,084**	55,026
Total current liabilities		**93,724**	109,980
Total liabilities		**498,517**	500,214
Total equity and liabilities		**942,766**	924,117

The financial statements were approved by the Board of Directors and authorised for issue on 27 March 2017. They were signed on its behalf by:

Duncan Anderson
Chief Executive Officer

John Brown
Chief Financial Officer

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

	Share capital US$'000	Share premium account US$'000	Restricted reserve US$'000	Group restructuring reserve US$'000	Share option reserve US$'000	Capital contribution US$'000	Translation reserve US$'000	Retained earnings US$'000	Attributable to the owners of the Company US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2015	57,929	93,247	272	(49,437)	563	9,177	180	246,631	358,562	610	359,172
Total comprehensive income	–	–	–	–	–	–	(817)	74,776	73,959	247	74,206
Share options rights charge (note 35)	–	–	–	–	846	–	–	–	846	–	846
Group restructuring reserve	–	–	–	(273)	–	–	–	–	(273)	–	(273)
Acquisition of interest in joint venture	–	–	–	–	–	–	–	(1,816)	(1,816)	(229)	(2,045)
Share issue cost	–	(172)	–	–	–	–	–	–	(172)	–	(172)
Dividends paid during the year (note 36)	–	–	–	–	–	–	–	(7,831)	(7,831)	–	(7,831)
Balance at 1 January 2016	57,929	93,075	272	(49,710)	1,409	9,177	(637)	311,760	423,275	628	423,903
Total comprehensive income	–	–	–	–	–	–	(1,378)	29,509	28,131	(68)	28,063
Share options rights charge (note 35)	–	–	–	–	293	–	–	–	293	–	293
Dividends paid during the year (note 36)	–	–	–	–	–	–	–	(8,010)	(8,010)	–	(8,010)
Balance at 31 December 2016	**57,929**	**93,075**	**272**	**(49,710)**	**1,702**	**9,177**	**(2,015)**	**333,259**	**443,689**	**560**	**444,249**

Please refer to note 18 for description of each reserve.

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

	2016 US$'000	2015 US$'000
Net cash generated from operating activities (note 28)	**126,297**	124,960
Investing activities		
Payments for property, plant and equipment	**(147,089)**	(184,403)
Proceeds from disposal of property, plant and equipment	**109**	768
Movement in capital advances	**195**	489
Drydocking expenditure incurred	**(2,594)**	(7,320)
Movement in pledged deposits	**–**	299
Movement in guarantee deposits	**81**	(247)
Interest received	**75**	640
Net cash used in investing activities	**(149,223)**	(189,774)
Financing activities		
Bank borrowings received	**105,000**	485,000
Repayment of bank borrowings	**(44,938)**	(370,500)
Payment of issue cost on borrowings	**(2,700)**	(9,921)
Share issue cost paid	**–**	(172)
Interest paid	**(22,166)**	(25,832)
Payment on obligations under finance lease	**(3,519)**	(4,628)
Dividends paid	**(8,010)**	(7,831)
Net cash provided by financing activities	**23,667**	66,116
Net increase in cash and cash equivalents	**741**	1,302
Cash and cash equivalents at the beginning of the year	**60,834**	59,532
Cash and cash equivalents at the end of the year (note 12)	**61,575**	60,834
Non-cash transactions		
Finance lease transaction (note 8)	**–**	53,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2016

1 General information

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

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

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

2 Adoption of new and revised International Financial Reporting Standards (IFRS)

The accounting policies and methods of computation adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016.

New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

New and revised IFRSs	Summary of requirements
Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*	The Group has adopted the amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception* for the first time in the current year. The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves. As the Company is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity, the adoption of the amendments has had no impact on the Group's consolidated financial statements.
Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*	The Group has adopted the amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* for the first time in the current year. The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations. The adoption of these amendments has had no impact on the Group's consolidated financial statements.
Amendments to IAS 1 *Disclosure Initiative*	The Group has adopted the amendments to IAS 1 *Disclosure Initiative* for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance. In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met. The amendments also address the structure of the financial statements by providing examples of systematic ordering or grouping of the notes. The adoption of these amendments has not resulted in any impact on the financial performance or financial position of the Group.
Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*	The Group has adopted the amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation* for the first time in the current year. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances: a) when the intangible asset is expressed as a measure of revenue; or b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. As the Group already uses the straight-line method for depreciation and amortisation for its property, plant and equipment and intangible assets, respectively, the adoption of these amendments has had no impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2016

2 Adoption of new and revised International Financial Reporting Standards (IFRS) continued

New and revised IFRSs applied with no material effect on the consolidated financial statements continued

New and revised IFRSs	Summary of requirements
Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*	The Group has adopted the amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants* for the first time in the current year. The amendments define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41. The adoption of these amendments has had no impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.
Amendments to IAS 27 *Equity Method in Separate Financial Statements*	The Group has adopted the amendments to IAS 27 *Equity Method in Separate Financial Statements* for the first time in the current year. The amendments focus on separate financial statements and allow the use of the equity method in such statements. Specifically, the amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements: • at cost, • in accordance with IFRS 9 (or IAS 39 for entities that have not yet adopted IFRS 9), or • using the equity method as described in IAS 28 *Investments in Associates and Joint Ventures*. The same accounting must be applied to each category of investments. The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it should account for the change from the date when the change in status occurs. The adoption of the amendments has had no impact on the Company's separate financial statements as the Company accounts for investments in subsidiaries and associates at cost and is not an investment entity.
Annual Improvements to IFRSs 2012-2014 Cycle	The Group has adopted the amendments to IFRSs included in the *Annual Improvements to IFRSs 2012-2014 Cycle* for the first time in the current year. The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued. The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets. The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead. The adoption of these amendments has had no effect on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these consolidated financial statements, the following new and revised IFRSs were in issue but not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017
IFRS 16 *Leases*	1 January 2019
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
IFRS 2 (amendments) *Classification and Measurement of Share-based Payment Transactions*	1 January 2018
IAS 7 (amendments) *Disclosure Initiative*	1 January 2017
IFRS 10 and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date deferred indefinitely

Management anticipates that the adoption of these IFRSs in future periods will have no material impact on the consolidated financial statements of the Group in the period of initial application, with the exception of IFRS 9, IFRS 15 and IFRS 16 for which the Management is currently in the process of assessing the impact of adoption.

3 Significant accounting policies

The Group's significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to each of the years presented.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and therefore the financial information presented complies with Article 4 of the EU IAS Regulation. IFRS includes the standards and interpretations approved by the International Accounting Standards Board (IASB) including International Accounting Standards (IAS) interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments and share based payments that are measured at revalued amounts or fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Basis of consolidation

The financial statements incorporate the financial statements of GMS and entities controlled by GMS (its subsidiaries). Management have assessed the control which GMS has over its subsidiaries in accordance with IFRS 10 *Consolidated Financial Statements* which provides that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Company has investments in the following subsidiaries.

Name	Place of registration	Registered Address	Proportion of ownership interest 2016	Proportion of ownership interest 2015	Type of activity
Gulf Marine Services W.L.L.	Abu Dhabi	MN1 Mussafah Base, Mussafah Industrial Area Abu Dhabi, P.O. Box 46046 United Arab Emirates	**100%**	100%	Marine Contractors
Offshore Holding Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Holding Company
Offshore Logistics Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge “Naashi”
Offshore Accommodation Invt. SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of “Khawla 181”
Offshore Jack-up Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge “Kamikaze”
Offshore Craft Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge “GMS Endeavour”
Offshore Structure Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge “Kikuyu”
Offshore Maritime Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of “Helios”
Offshore Tugboat Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of “Atlas”
Offshore Boat Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge “Kawawa”
Offshore Kudeta Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge “Kudeta”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2016

3 Significant accounting policies continued

Basis of consolidation continued

Name	Place of registration	Registered Address	Proportion of ownership interest 2016	2015	Type of activity
Mena Marine Limited	Cayman Islands	Ugland House, Grand Cayman, KY1-1104, Cayman Islands, P.O. Box 309	**100%**	100%	General investment and trading
Gulf Marine Services (UK) Limited	United Kingdom	c/o MacKinnon's, 14 Carden Place, Aberdeen, AB10 1UR	**100%**	100%	Operator of offshore barges
Gulf Marine Saudi Arabia Co. Limited	Saudi Arabia	P. O. Box 257, Dammam 31411 Saudi Arabia	**75%**	75%	Operator of offshore barges
Gulf Marine Services (Asia) Pte. Ltd.	Singapore	1 Scotts Road, #21-07, Shaw Centre, Singapore, 228208	**100%**	100%	Operator of offshore barges
GMS Enterprise Investment SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Enterprise"
GMS Sharqi Investment SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Sharqi"
GMS Scirocco Investment SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Scirocco"
GMS Shamal Investment SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Shamal"
GMS Jersey Holdco. 1 Limited+	Jersey	43/45 La Motte Street, St Helier, Jersey, JE4 8SD	**100%**	100%	General Investment
GMS Jersey Holdco. 2 Limited	Jersey	43/45 La Motte Street, St Helier, Jersey, JE4 8SD	**100%**	100%	General Investment
GMS Marine Middle East FZE	United Arab Emirates	ELOB, Office No. E-16F-04, P.O. Box 53944, Hamriyah Free Zone, Sharjah	**100%**	100%	Operator of Offshore Barges
GMS Global Commercial Invt LLC	United Arab Emirates	Al Mariah Island, Al Sowwa Square, Abu Dhabi, United Arab Emirates	**100%**	100%	General Investment
GMS Keloa Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Keloa"
GMS Pepper Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	–	Owner of Barge "Pepper"
GMS Evolution Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	–	Owner of Barge "Evolution"

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the results of subsidiaries to bring their accounting policies in line with those used by other members of the Group. All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group. Acquisitions of subsidiaries and businesses are accounted for using the acquisition method.

The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. Fair value is determined as the amount for which an asset could be exchanged, or a liability transferred, between knowledgeable, willing parties in an arm's length transaction.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) are recognised at their fair value at the acquisition date.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measuremen*t or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Going concern

The financial statements have been prepared on the going concern basis. The use of this basis of accounting takes into consideration the Group's current and forecast financial position, including the capital commitments described in note 30. Further information on the use of the going concern basis has been disclosed in the Directors' report.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is recognised only when it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue can be measured reliably and is stated net of sales taxes if applicable (such as VAT) and discounts. If advances are received from customers for future contractual services, the revenue is deferred until the services are provided.

Charter revenue

Revenue from services is recognised as the services are rendered, including where they are based on contractual daily rates for the chartering of vessels in respect of multi-year service contracts. Income from vessels hired on time and voyage charters and from the hire of equipment or personnel is accounted for on a time apportionment basis in line with agreed contract terms.

Contract mobilisation/demobilisation revenue

Charter contracts generally provide for payment on a daily rate basis, and revenues are recognised as the work progresses with the passage of time. In addition, lump-sum payments are occasionally received at the outset or at the end of a contract for equipment moves or modifications. Lump-sum fees received for equipment moves (and related costs) and fees received for contract-specific equipment modifications or upgrades as part of mobilisations are initially deferred and amortised on a straight-line basis over the term of the contract. Lump-sum fees received for equipment moves (and related costs) as part of demobilisations are recognised as the services relating to the demobilisation are rendered.

The costs of contractual equipment modifications or upgrades to vessels that are permanent in nature are capitalised and depreciated in accordance with the Group's fixed asset capitalisation policy. The costs of moving equipment while not under contract are expensed as incurred.

Revenue is recognised for certain reimbursable costs. Each reimbursable item and amount is stipulated in the Group's contract with the customer, and such items and amounts are variable from contract to contract. Reimbursable costs are recognised on the gross basis, as both revenues and expenses, because the Group is the primary obligor in the arrangement, has discretion in supplier selection, is involved in determining product or service specifications and assumes full credit risk related to the reimbursable costs.

Revenue from messing and accommodation services

Revenue from these services is recognised as the services are rendered, including where they are based on contractual daily rates for providing accommodation and messing services which may include catering and cleaning services.

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2016

3 Significant accounting policies continued

Revenue recognition continued

Maintenance income

Maintenance income relates to maintenance work which is carried out on vessels during times that the vessel is on hire. This is done periodically throughout the year and is charged to customers in accordance with agreed contractual daily rates. Maintenance revenue is recognised when the work takes place.

Sundry income

Sundry income relates to handling charges which are applied to costs which are paid by the Group and then recharged to the customer. The revenue is recognised when the costs are recharged to customers with the handling charge applied.

Leasing

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments calculated using the Group's incremental borrowing rate. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses (if any). The cost of property, plant and equipment is their purchase cost together with any incidental expenses of acquisition. Subsequent expenditure incurred on vessels is capitalised where the expenditure gives rise to future economic benefits in excess of the originally assessed standard of performance of the existing assets.

Depreciation is recognised so as to write off the cost of property, plant and equipment less their residual values over their useful lives, using the straight-line method. The residual values of vessels and related equipment are determined taking into consideration the expected scrap value of the vessel, which is calculated based on the weight and the market rate of steel at the time of asset purchase. If the price per unit of steel at the balance sheet date varies significantly from that on date of purchase, the residual value is reassessed to reflect changes in market value. The estimated useful lives used for this purpose are:

Vessels	25-35 years
Land, buildings and improvements	3-20 years
Vessel spares, fittings and other equipment	3-20 years
Office equipment and fittings	3-5 years
Motor vehicles	3 years

Taking into consideration independent professional advice, management considers the principal estimated useful lives of vessels for the purpose of calculating depreciation to be 25 to 35 years from the date of construction.

The estimated useful life depends on the type and nature of the vessel. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised within administrative expenses in the income statement. The depreciation charge for the period is allocated between cost of sales and administrative expenses, depending on the usage of the respective assets.

Standby equipment

The cost of purchased second hand engines and related refurbishment expenses which are classified as standby equipment are capitalised and depreciated from the date that the engine has been made ready for use and installed on the vessel.

Second hand refurbished engines are depreciated over the shorter of the useful economic life of the refurbished second hand standby equipment or the life of the vessel on which such equipment is installed.

Repair expenses relating to used engines belonging to the Group are charged to administrative expenses when incurred.

Dry docking
The costs incurred for periodical dry docking or major overhauls of the vessels are identified as a separate inherent component of the vessels and are depreciated on a straight-line basis over the period to the next anticipated dry dock being approximately 30 months.

For acquired or newly built vessels, a notional dry dock cost is allocated from the vessel's cost based on experience of similar vessels, and (if material) depreciated on a straight-line basis to the next anticipated dry docking. If a dry docking occurs prior to its anticipated date, any remaining capitalised dry docking expenditure is expensed.

Capital work-in-progress
Properties and vessels under the course of construction, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs under capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Intangible assets
Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives used for this purpose are:

Customer relationships	10 years

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. The amortisation expense on intangibles is included as a part of general and administrative expenses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill
At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2016

3 Significant accounting policies continued

Provisions continued
The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Employees' end of service benefits
In accordance with the applicable Labour Laws of the UAE, the Group is required to pay end of service benefits to all qualifying employees upon cessation of employment. The only obligation of the Group with respect to end of service benefits is to make the specified lump sum payments to employees which become payable when they leave the Group for reasons other than gross misconduct. The amount payable is calculated as a multiple of a pre-defined fraction of basic salary based on the number of full years of service.

To meet the requirement of the UAE labour laws, a provision is made for the full amount of end of service benefits payable to qualifying employees up to the end of the reporting period. The provision relating to end of service benefits is disclosed as a non-current liability. The provision has not been subject to a full actuarial valuation or discounted as the impact would not be material.

The actual payment is made in the year of cessation of employment of a qualifying employee. The payment for end of service benefit is made as a lump sum along with the full and final settlement of the employee.

The total expense recognised in profit or loss of loss of US$ 0.8 million (2015: US$ 1.2 million) represents end of service benefit provision made to employees in accordance with the UAE Labour Laws.

Foreign currencies
The individual financial statements of each Group company are prepared in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of these financial statements US Dollars (US$) is the functional currency of the Group and the presentation currency of the Group. In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial information, the assets and liabilities of the Group's subsidiaries are expressed in US Dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly-controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statement of comprehensive income because of items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of the assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Long-term incentive plans

The fair value of an equity instrument is determined at the grant date based on market prices if available, taking into account the terms and conditions upon which those equity instruments were granted. If market prices are not available for share awards, the fair value of the equity instruments is estimated using a valuation technique to derive an estimate of what the price of those equity instruments would have been at the relevant measurement date in an arm's length transaction between knowledgeable, willing parties.

Equity-settled share based payments to employees are measured at the fair value of the instruments, using a binomial model together with Monte Carlo simulations as at the grant date, and is expensed over the vesting period. The value of the expense is dependent upon certain key assumptions including the expected future volatility of the Group's share price at the date of grant. The fair value measurement reflects all market-based vesting conditions. Service and non-market performance conditions are taken into account in determining the number of rights that are expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Financial assets

The Group has the following financial assets: cash and cash equivalents, trade and other receivables (excluding prepayments and advances to suppliers) and amounts due from related parties. These financial assets are classified as "loans and receivables". The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances held with banks with original maturities of three months or less.

Trade and other receivables and amounts due from related parties

Trade and other receivables (excluding prepayments and advances to suppliers) and due from related parties that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables or when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The provision is determined by reference to previous experience of recoverability for receivables in each market in which the Group operates.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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3 Significant accounting policies continued

Financial assets continued

Impairment of financial assets continued

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities at Fair Value Through Profit or Loss "FVTPL" or "other financial liabilities".

Derivatives that are not designated and effective as hedging instruments are classified as financial liabilities and are held at FVTPL. Derivatives held at FVTPL are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period with the resulting gain or loss recognised in profit or loss immediately.

Trade and other payables, bank borrowings, loans from related parties, amounts due to related parties and other liabilities are classified as "other financial liabilities". Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short-term payables or when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Group enters into foreign exchange forward contracts to manage its exposure to foreign exchange risk. As at 31 December 2016, the Group did not have any open derivative financial instruments.

Derivatives that are not designated and effective as hedging instruments are classified as financial liabilities or financial assets and are held at FVTPL. Derivatives held at FVTPL are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period with the resulting gain or loss recognised in profit or loss immediately. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Fair values of the derivatives are carried out by independent valuers by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. They represent Level 2 financial instruments under the IFRS hierarchy. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise. Derivative financial instruments that do not qualify for hedge accounting are classified as held for trading derivatives.

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key sources of estimation, which management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Key sources of estimation uncertainty

Impairment of property, plant and equipment

Management evaluate the carrying amounts of the Group's vessels and vessels under construction to determine whether there is any indication that those vessels have suffered an impairment loss. If any such indication exists, the recoverable amount of vessels is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of fair value less costs to sell and value in use. As part of the process of assessing fair values less costs to sell of the vessel, management obtain vessel valuations from leading, independent and internationally recognised ship brokers on an annual basis or when there is an indication that the value of the vessel may be impaired. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate of 11.5% that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The projection of cash flows related to vessels is complex and requires the use of various estimates including future day rates, vessel utilisation and discount rates. Further details of impairment charges during the year are provided in note 8.

Impairment of accounts receivable

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. The Group reviews the ageing of trade receivables regularly and the need for allowances against doubtful debts is considered for trade receivables that are past due based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position. Any difference between the amounts actually collected in future periods and the amounts expected to be impaired will be recognised in the consolidated statement of comprehensive income. Further details in this area are provided in note 11.

Critical accounting judgements

Capitalisation of vessel costs

Management exercises judgement in assessing the extent to which costs incurred in relation to its vessel fleet, including overheads, dry docking expenditure and finance charges, meet the criteria for capitalisation under IFRS. Judgement is also required in determining the date at which vessels under construction are ready for use at which point capitalisation of the majority of costs ceases and depreciation commences. Further details of expenditure incurred during the year is provided in note 8.

Leases

Management exercises judgements in assessing whether a lease is a finance lease or an operating lease. The judgement as to which category applies to a specific lease depends on management's assessment of whether in substance the risks and rewards of ownership of the assets have been transferred to the lessee. In the instances where management estimates that the risks and rewards have been transferred, the lease is considered as a finance lease, otherwise it is accounted for as an operating lease. Further details in this area are provided in notes 31 and 32.

5 Segment reporting

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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5 Segment reporting continued

All of these operating segments earn revenue related to the hiring of vessels and related services including charter hire income, messing and accommodation services, personnel hire and hire of equipment. The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3.

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

*Please refer to the Glossary.

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

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

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

Information about major customers

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

Geographical segments

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

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

6 Presentation of adjusted non-GAAP results

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

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

* The impairment charge on certain vessels being non-operational in nature has been added back to net profit to arrive at adjusted net profit for the year.
** The write-off of unamortised arrangement fees being non-operational in nature has been added back to net profit to arrive at adjusted net profit in 2015.

7 Earnings per share

	2016 US$	2015 US$
Earnings for the purpose of basic and diluted earnings per share being profit for the year attributable to owners of the parent (US$'000)	**29,509**	74,776
Earnings for the purpose of adjusted basic and diluted earnings per share (US$'000) (see note 6)	**50,816**	84,642
Weighted average number of shares ('000)	**349,528**	349,528
Weighted average diluted number of shares in issue ('000)	**354,012**	351,946
Basic earnings per share (cents)	**8.44**	21.39
Diluted earnings per share (cents)	**8.34**	21.25
Adjusted earnings per share (cents)	**14.54**	24.22
Adjusted diluted earnings per share (cents)	**14.35**	24.05

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

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

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7 Earnings per share continued

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

Adjusted diluted earnings per share is calculated on the same basis but uses adjusted profit (note 6) attributable to equity holders of the Company.

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

	2016 US$'000	2015 US$'000
Weighted average basic number of shares in issue	**349,528**	349,528
Effect of share options under LTIP schemes	**4,484**	2,418
Weighted average diluted number of shares in issue	**354,012**	351,946

8 Property, plant and equipment

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

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

The carrying amount of vessels held under finance leases is US$ 38.4 million (2015: US$ 100.2 million). During the year the Group purchased the formerly leased vessel Pepper for US$ 51.0 million (note 31). In 2015, the Group entered into a finance lease for the vessel Pepper with the related addition of US$ 53.0 million.

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

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

Certain vessels, with a total net book value of US$ 566.6 million (2015: US$ 465.2 million), have been mortgaged as security for the loans extended by the Group's bankers (note 19).

Impairment assessment

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

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

For the purpose of the impairment assessment, each vessel is considered a separate cash-generating unit (CGU) and management has estimated the recoverable amounts of its vessels based on their value in use. The cash flow projections used in determining the value in use of each CGU were based on forecasts prepared by management taking into account past experience. The average compound annual growth rates (CAGR) in revenue for the CGUs were assumed as an average upward revision of 6.8% between 2017 and 2022, remaining flat thereafter. The CAGR is dependent on the average utilisation and charter rate of the vessels.

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

9 Intangible assets

	Customer relationships US$'000	Total US$'000
Cost	7,337	7,337
Accumulated amortisation		
Balance at 1 January 2015	6,587	6,587
Amortisation expense	375	375
Balance at 1 January 2016	6,962	6,962
Amortisation expense	375	375
Balance at 31 December 2016	**7,337**	**7,337**
Carrying amount		
Balance at 31 December 2016	**–**	**–**
Balance at 31 December 2015	375	375

The intangible assets were acquired as part of the acquisition of Gulf Marine Services WLL and Offshore Holding Investment Group (OHI) in 2007. Amortisation of intangibles amounting to US$ 0.4 million (2015: US$ 0.4 million) has been allocated to general and administrative expenses.

10 Dry docking expenditure

The movement in dry docking expenditure is summarised as follows:

	2016 US$'000	2015 US$'000
At 1 January	**6,510**	4,177
Expenditure incurred during the year	**2,594**	7,320
Disposals	**–**	(1,363)
Amortised during the year	**(4,176)**	(3,624)
Impairment charge (primarily on leased vessel. See note 8)	**(601)**	–
At 31 December	**4,327**	6,510

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

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11 Trade and other receivables

	2016 US$'000	2015 US$'000
Trade receivables	**19,289**	54,700
Accrued income	**1,787**	503
Prepayments and deposits*	**2,349**	3,918
Advances to suppliers	**128**	540
Other receivables	**322**	145
Due from related parties (see note 27)	**70**	70
	23,945	59,876

* Prepayments and deposits include guarantee deposits and pledged deposits of US$ 0.69 million (2015: US$ 0.77 million). Guarantee deposits are paid by the Group for employee work visas under UAE labour laws. These deposits become refundable to the Group upon the cancellation of an employee's work visa. Work visas are not granted indefinitely in the UAE and as such these deposits which are currently held by the government in the UAE are refundable to the Group. These work visa deposits amounted to US$ 0.65 million (2015: US$ 0.73 million). Pledged deposits represent an amount set aside as a guarantee for a loan repayment amounting to US$ 0.04 million (2015: US$ 0.04 million). The Group has no right to access or utilise the proceeds set-aside as pledged deposits, other than for repayment of the underlying loan.

Trade receivables, amounting to US$ 16.8 million (2015: US$ 34.0 million), have been assigned as security against the loans extended by the Group's bankers (note 19).

Trade receivables and other receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. Trade and other receivables are all current and the Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value due to the very short time between inception and maturity (based on level 2 fair value measurements as defined by the fair value hierarchy according to IFRS 13).

The normal credit period granted to customers is 30-45 days (2015: 30-45 days). Before accepting any new customer the Group assesses the potential credit quality of the customer. The Group has policies in place to ensure that credit sales are rendered to customers with an appropriate credit history.

The Group reviews the ageing of trade receivables regularly and the need for allowances against doubtful debts is considered for trade receivables over 60 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

The Group does not hold any collateral or other credit enhancements over any of its trade receivables nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

The movement in the allowance for doubtful receivables during the year was as follows:

	2016 US$'000	2015 US$'000
At 1 January	**–**	1,383
Provision during the year	**2,287**	614
Recovery	**–**	(925)
Write-off	**–**	(1,072)
At 31 December	**2,287**	–

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Trade receivables are considered past due once they have passed their contracted due date.

Included in the Group's trade receivables balance are debtors with a carrying amount of US$ 7.39 million (2015: US$ 9.98 million) which are past due for 30 days or more at the reporting date. The average age of these receivables is 96 days (2015: 72 days).

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

		Number of days past due					
	Current US$'000	< 30 days US$'000	31-60 days US$'000	61-90 days US$'000	91-120 days US$'000	> 120 days US$'000	Total US$'000
Trade Receivables	**10,722**	**3,469**	**3,383**	**88**	**–**	**3,914**	**21,576**
Less: Allowance for doubtful receivables	**(607)**	**(611)**	**(897)**	**(88)**	**–**	**(84)**	**(2,287)**
Net Trade Receivables 2016	**10,115**	**2,858**	**2,486**	**–**	**–**	**3,830**	**19,289**
Trade Receivables	31,721	13,000	1,856	2,543	3,722	1,858	54,700
Less: Allowance for doubtful receivables	–	–	–	–	–	–	–
Net Trade Receivables 2015	31,721	13,000	1,856	2,543	3,722	1,858	54,700

Several customers account for a significant portion of the total trade receivables balance (see revenue by segment information in note 5); however, credit risk is considered to be limited due to historical performance and ongoing assessments of customer credit and liquidity positions.

12 Cash and cash equivalents

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

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

13 Share capital

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

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

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

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

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

Issued share capital and share premium account were as follows:

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

14 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.

15 Share option reserve

Share option reserve of US$ 1.7 million (2015: US$ 1.4 million) relates to awards granted to employees under the long-term incentive plan (note 35). The charge is included in cost of sales and, general and administrative expenses in the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2016

16 Capital contribution

The capital contribution reserve is as follows:

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

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

17 Restricted reserve

Restricted reserve represents the statutory reserve of certain subsidiaries. As required by the UAE Commercial Companies Law, 10% of profit for the year is transferred to the statutory reserve until the reserve equals 50% of the share capital. This reserve is not available for distribution. No amounts were transferred to this reserve during any of the years shown.

18 Reserves

The Group's Statement of Changes in Equity is disclosed as a part of primary statements on pages 73 to 76. Below is a description of the nature and purpose of the individual reserves:

- Share capital represents the nominal value of shares issued (note 13).
- Share premium account includes the amounts paid over nominal value in respect of share issued, net of related costs (note 13).
- Restricted reserve includes certain reserves maintained by subsidiaries in compliance with the relevant Companies Law applicable (note 17).
- Capital Contribution represent certain contributions made by shareholder for nil consideration (note 16).
- Group restructuring reserve arose on consolidation under the pooling of interests (merger accounting) method used for group restructuring (note 14).
- The Company's Share option reserve represents the cumulative share-based payment charged to reserves (note 15).
- Foreign currency translation reserve represents differences on foreign currency net investments arising from the re-translation of the net investments in overseas subsidiaries.
- Retained profits include the accumulated realised and certain unrealised gains and losses made by the Company and the Group.

19 Bank borrowings

Secured borrowings at amortised cost

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

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

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

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

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

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

20 Taxation charge for the year

Tax is calculated at the rates prevailing in the respective jurisdictions in which the Group operates. The overall effective rate is the aggregate of taxes paid in jurisdictions where income is subject to tax (being principally Qatar, the United Kingdom, the Netherlands and Saudi Arabia), divided by the Group's profit.

	2016 US$'000	2015 US$'000
Profit from continuing operations before tax	**30,818**	77,081
Tax at the UK corporation tax rate of 20% (2015: 20.25%)	**6,164**	15,609
Effect of lower tax rates in overseas jurisdictions	**(4,787)**	(13,551)
Total tax charge	**1,377**	2,058
Split between:		
Current tax	**1,114**	2,050
Deferred tax	**263**	8
Tax charge per financial statements	**1,377**	2,058
Effective tax rate on continuing operations	**4%**	3%

During the year tax on profits and withholding taxes of the Group from operations were 10% in Qatar (2015: 10%) and 20% in the United Kingdom (2015: 20.25%). The Group incurred 5% withholding taxes on revenue (2015: 5%) and 2.5% Zakat tax on profit from operations in Saudi Arabia. The withholding tax included in the current tax charge amounted to US$ 0.5 million (2015: US$ 1.0 million).

The Group expects the overall effective tax rate in the future to vary according to local tax law changes in jurisdictions which incur taxes, as well as any changes to the share of the Group profits which arise in tax paying jurisdictions.

At the balance sheet date, the Group has unused tax losses of US$ 2.7 million (2015: US$ 6.7 million) available for offset against future profits. These tax losses may be carried forward indefinitely.

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for the year ended 31 December 2016

21 Provision for employees' end of service benefits

In accordance with UAE Labour Law the Group is required to provide for end of service benefits for certain employees. The movement in the provision for employees' end of service benefits during the year was as follows:

	2016 US$'000	2015 US$'000
At the beginning of the year	**3,391**	2,468
Provided during the year	**780**	1,181
Paid during the year	**(990)**	(258)
At 31 December	**3,181**	3,391

22 Trade and other payables

	2016 US$'000	2015 US$'000
Trade payables	**4,579**	6,912
Accrued expenses	**20,181**	22,527
Deferred revenue	**3,286**	2,965
VAT and other taxes payable	**564**	1,311
Other payables	**177**	168
	28,787	33,883

The average credit period on purchases is 90 days (2015: 90). The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. No interest is payable on the outstanding balances.

Trade and other payables are all current 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.

23 Revenue

The following is an analysis of the Group's revenue for the year.

	2016 US$'000	2015 US$'000
Charter hire	**163,785**	199,999
Mobilisation and demobilisation	**3,867**	3,566
Messing and accommodation	**10,841**	14,335
Maintenance	**819**	1,608
Sundry income	**98**	205
	179,410	219,713

Further descriptions on the above types of revenue have been provided in note 3.

24 Finance expenses

	2016 US$'000	2015 US$'000
Interest on bank borrowings	**15,126**	13,945
Interest on finance leases	**6,362**	11,966
Write-off of unamortised loan arrangement fees*	**–**	9,866
Amortisation of issue costs and commitment fees	**1,143**	4,158
Fair value loss on derivative financial instrument	**–**	27
Finance expense	**22,631**	39,962
Less: Amounts included in the cost of qualifying assets	**(2,450)**	(5,828)
	20,181	34,134

* Triggered by the loan refinancing in December 2015 (see note 19).

25 Finance income

	2016 US$'000	2015 US$'000
Bank and other income	**75**	640

26 Profit for the year

The profit for the year is stated after charging/(crediting):

	2016 US$'000	2015 US$'000
Total staff costs (see below)	**39,492**	42,861
Depreciation of property, plant and equipment	**28,227**	23,186
Amortisation of dry docking expenditure	**4,176**	3,624
Amortisation of intangibles	**375**	375
Provision for/(reversal of) doubtful debts	**2,287**	(311)
Fair value loss on derivative financial instrument	**–**	27
Foreign exchange loss, net	**1,023**	32
Loss on disposal of property, plant and equipment	**847**	1,045
Operating leases rentals	**405**	389
Auditor's remuneration	**368**	368

The average number of full time equivalent employees (including executive directors) by geographic area was:

	2016 Number	2015 Number
Middle East and Northern Africa	**603**	611
Rest of the world	**79**	81
	682	692

The total number of full time equivalent employees (including executive directors) as at 31 December 2016 was 471 (31 December 2015: 790).

Their aggregate remuneration comprised:

	2016 US$'000	2015 US$'000
Wages and salaries	**38,254**	40,668
Employment taxes	**165**	166
End of service benefit (note 21)	**780**	1,181
Share based payments (note 35)	**293**	846
	39,492	42,861

The analysis of the auditor's remuneration is as follows:

	2016 US$'000	2015 US$'000
Group audit fees	**204**	224
Subsidiary audit fees	**40**	39
Total audit fees	**244**	263
Audit-related assurance services – interim review	**92**	105
Other services	**32**	–
Total fees	**368**	368

For further information on the Group's policy in respect of Auditor's remuneration see page 45 of the Report of the Audit and Risk Committee.

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27 Related party transactions

Related parties comprise the Group's major shareholders, Directors and entities related to them, companies under common ownership and/or common management and control, their partners and key management personnel. Pricing policies and terms of related party transactions are approved by the Group's Board.

Balances and transactions between and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Trading transactions
The following balances were outstanding at the end of the reporting period:

	2016 US$'000	2015 US$'000
Amounts owed by related parties (see note 11):		
Shareholders	**70**	70
Term loans due to Abu Dhabi Commercial Bank (included in borrowings note 19)	**194,330**	80,000
Bank balances deposited with Abu Dhabi Commercial Bank	**33,680**	1,533

Key management personnel:
As at 31 December 2016, there were 2,631,327 ordinary shares held by Directors (31 December 2015: 616,705 ordinary shares).

Transactions with related parties included in the consolidated statement of comprehensive income are as follows:

	2016 US$'000	2015 US$'000
Interest expense on loans from related parties	**768**	398

Related parties
The Group's principal subsidiaries are outlined in note 3. The related parties comprising of the Group's major shareholders are outlined below.

Major shareholders	Ownership interest
Green Investment Commercial Investments LLC	48.39%
Aberforth Partners	8.03%
Horizon Energy LLC	6.05%
Al Ain Capital LLC (formerly Al Bateen Investment Company LLC)	6.05%

Partner in relation to Saudi Operations	Relationship
Abdulla Fouad Energy Services Company	Minority shareholder in GMS Saudi Arabia Ltd.

Other related parties	Relationship
Gulf Capital PJSC (Gulf Capital)	100% shareholding in Green Investment Commercial Investments LLC. Advises funds that hold shares in the Group.
GC Equity Partners Fund II, L.P. ("GC Equity Partners II")	An institutional fund sponsored and managed by Gulf Capital. The ultimate controlling party of Gulf Capital.
Abu Dhabi Commercial Bank	8.16% Shareholding in Gulf Capital.

Compensation of key management personnel
The remuneration of Directors and other members of key management personnel during the year were as follows:

	2016 US$'000	2015 US$'000
Short-term benefits	**3,603**	2,962
End of service benefits	**136**	129
Share based payments (LTIPs)	**508**	370
Dividends paid	**60**	4
	4,307	3,465

Compensation of key management personnel represents the charge to the income statement in respect of the remuneration of the executive and non-executive Directors and certain members of the senior management team. In 2016 there were 11 members of key management personnel (2015: ten members).

28 Net cash flow from operating activities

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

29 Contingent liabilities

At 31 December 2016, the bankers of Gulf Marine Services FZE, one of the subsidiaries of the Group, had issued bid bonds, performance bonds and labour guarantees amounting to US$ 0.69 million (2015: US$ 0.77 million) all of which were counter-indemnified by other subsidiaries of the Group.

30 Commitments

Capital commitments

	2016 US$'000	2015 US$'000
Contractual capital commitments	**6,423**	32,802

Capital commitments comprise mainly of capital expenditure, which has been contractually agreed with suppliers for future periods for new build vessels and equipment or the refurbishment of existing vessels.

31 Obligations under finance leases

During the year the option to purchase the leased vessel Pepper for US$ 51.0 million was exercised. The vessel Kinoa is the remaining vessel being leased as at 31 December 2016.

The Group's future minimum lease payments under financing leases are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Within one year	**43,870**	63,257	**40,084**	55,026
In the second to fifth year	**–**	42,578	**–**	39,577
	43,870	105,835	**40,084**	94,603
Less: future finance charges	**(3,786)**	(11,232)	**–**	–
	40,084	94,603	**40,084**	94,603

The Group has the option to purchase the vessel at expiry of the lease period. The fair value of the Group's lease obligations is approximately equal to their carrying amount. The fair values of the financial lease obligations were determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, using appropriate market interest rates. These represent level 3 value measurements as defined by the fair value hierarchy according to IFRS 13.

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32 Obligations under operating leases

Operating lease rental payments represent rentals payable by the Group for certain properties.

	2016 US$'000	2015 US$'000
Lease payments under operating leases recognised as expense during the year	**405**	389

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 US$'000	2015 US$'000
Within one year	**1,946**	2,526
In the second to fifth year	**1,363**	4,201
	3,309	6,727

Operating leases are negotiated for an average term of three and five years for our UAE and UK offices, respectively and accordingly, rental costs are fixed for an average term of three and five years.

33 Non-controlling interests

The movement in non-controlling interests is summarised as follows:

	2016 US$'000	2015 US$'000
At 1 January	**628**	610
Share of profit/(loss) for the year	**(68)**	247
Acquisition of interest in joint venture	**–**	(229)
At 31 December	**560**	628

34 Financial instruments

Categories of financial instruments

	2016 US$'000	2015 US$'000
Financial assets:		
Current assets		
Cash and cash equivalents at amortised cost	**61,575**	60,834
Trade receivables and other debtors at amortised cost	**22,155**	56,186
Total financial assets	**83,730**	117,020
Financial liabilities:		
Financial liabilities recorded at amortised cost:		
Trade and other payables	**24,938**	29,607
Bank borrowings (non-current)	**401,599**	347,253
Obligations under a finance lease (non-current)	**–**	39,577
Bank borrowings (current)	**22,021**	17,863
Obligations under a finance lease (current)	**40,084**	55,026
Total financial liabilities	**488,642**	489,326

Capital risk management

The Group manages its capital to ensure 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 2016 and 2015.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

Financial risk management objectives

The Group is exposed to the following risks related to financial instruments – credit risk, liquidity risk, cash flow, interest rate risk and foreign currency risk. The management actively monitors and manages these financial risks relating to the Group.

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 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 arise 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 five Middle East and five international oil companies. At 31 December 2016, these ten companies accounted for 99% (2015: 96%) of the outstanding trade receivables. The credit risk on liquid funds is limited because the counterparties are 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 balances with banks are not secured by any collateral.

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 the Saudi Riyal is 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 and consequently this risk is typically not hedged, other than in relation to significant foreign currency capital expenditure programmes.

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

	Liabilities 31 December		Assets 31 December	
	2016 US$'000	2015 US$'000	**2016 US$'000**	2015 US$'000
UAE Dirhams	**1,413**	2,378	**12,644**	48,899
Saudi Riyals	**39**	24	**160**	2,409
Pound Sterling	**95**	292	**7,602**	11,006
Euro	**29**	331	**11,925**	2,244
Singapore Dollar	**–**	–	**–**	5
Norwegian Krone	**–**	20	**–**	–
Others	**5**	19	**–**	–
	1,581	3,064	**32,331**	64,563

At 31 December 2016, 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 profit for the period would have been lower/higher by US$ 1.9 million (2015: lower/higher by US$ 1.3 million) mainly as a result of foreign exchange loss or gain on translation of Euro and Pound Sterling denominated balances.

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 sensitivity analysis below have 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 profit for the year ended 31 December 2016 would decrease/increase by US$ 2.1 million (2015: decrease/increase US$: 1.8 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2016

34 Financial instruments continued

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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 ensure adequate liquidity is maintained. 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	1-3 months US$	4-12 months US$	2-5 years US$	After 5 years US$
31 December 2016					
Non-interest bearing financial assets		**71,372**	**687**	**–**	**–**
Interest bearing financial assets	**3.5–3.8%**	**11,671**	**–**	**–**	**–**
		83,043	**687**	**–**	**–**
Non-interest bearing financial liabilities		**24,938**	**–**	**–**	**–**
Interest bearing financial liabilities	**3.8–12%**	**6,327**	**55,778**	**401,599**	**–**
		31,265	**55,778**	**401,599**	**–**
31 December 2015					
Non-interest bearing financial assets		80,330	768	–	–
Interest bearing financial assets	4%	35,922	–	–	–
		116,252	768	–	–
Non-interest bearing financial liabilities		29,607	–	–	–
Interest bearing financial liabilities	3–14.7%	5,409	67,480	221,777	165,053
		35,016	67,480	221,777	165,053

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

35 Long term incentive plans

The Group has Long Term Incentive Plans (LTIPs), performance shares and share options which were granted to senior management, managers and senior offshore officers. The details of the senior management LTIPs are contained in the Directors' Remuneration Report on pages 47 to 59. The release of these shares is conditional upon continued employment, certain market vesting conditions and in the case of senior management LTIP awards; performance against three-year target EPS compound annual growth rates. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined, using the Binomial Probability Model together with Monte Carlo simulations, at the grant date of equity-settled share-based payments, is expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will ultimately vest. The fair value of each award is determined by taking into account the market performance condition, the term of the award, the share price at grant date, the expected price volatility of the underlying share and the risk-free interest rate for the term of the award.

Non-market vesting conditions, which for the Group mainly relate to the continual employment of the employee during the vesting period, and in the case of the senior management LTIP awards the achievement of EPS growth targets, are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Any market vesting conditions are factored into the fair value of the options granted.

To the extent that share options are granted to employees of the Group's subsidiaries without charge, the share option charge is capitalised as part of the cost of investment in subsidiaries.

The number of share awards made by the Group during the year is given in the table below together with their weighted average exercise price ('WAEP').

Scheme	2016 No.	2016 WAEP	2015 No.	2015 WAEP
At beginning of the year	**3,679,453**	**–**	1,621,892	–
Granted in the year	**5,014,231**	**–**	2,652,024	–
Forfeited in the year	**(1,442,316)**	**–**	(594,463)	–
At end of the year	**7,251,368**	**–**	3,679,453	–
Exercisable at the end of the year	**–**	**–**	–	–

Outlined below is a summary of the assumptions which have been used to determine the fair value of the share awards:

	LTIP	LTIP
Grant date	23 March 2016	25 March 2015
Share price	£0.71	£1.31
Exercise price	£0.00	£0.00
Expected volatility	40%	34%
Risk-free rate	0.84%	1.008%
Expected dividend yield	3.3%	1.5%
Vesting period	3 years	3 years
Award life	3 years	3 years
Market performance condition	36.0%	37.9%

The expected Gulf Marine Services PLC share price volatility was determined taking into account the average of the volatility of two comparable companies at each of the grant dates.

The risk free return was determined from similarly dated zero coupon UK government bonds at the time the share awards were granted, using historical information taken from the Bank of England's records.

The charge arising from share-based payments is disclosed in note 15.

36 Dividends

	2016 US$'000	2015 US$'000
Dividends declared and paid during the year		
Final Dividend for 2014: 1.06 pence per share	**–**	5,624
Interim Dividend for 2015: 0.41 pence per share	**–**	2,207
Final Dividend for 2015: 1.20 pence per share	**6,123**	–
Interim Dividend for 2016: 0.41 pence per share	**1,887**	–
	8,010	7,831

A final dividend in respect of the year ended 31 December 2016 of 1.20 pence (1.50 cents) per ordinary share is to be proposed at the AGM. These financial statements do not reflect this final dividend.

37 Events after the reporting period

There have been no events subsequent to 31 December 2016 for disclosure, other than the final dividend disclosed in note 36.

COMPANY STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	Notes	2016 US$'000	2015 US$'000
ASSETS			
Fixed assets			
Investments	5	**573,546**	573,546
Total non-current assets		**573,546**	573,546
Current assets			
Trade and other receivables	6	**1,826**	736
Cash and cash equivalents		**553**	8,996
Creditors: Amounts falling due within one year	7	**(4,205)**	(1,139)
Total current (liabilities)/assets		**(1,826)**	8,593
Net assets		**571,720**	582,139
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	8	**57,929**	57,929
Share premium	8	**93,075**	93,075
Restricted reserve	8	**1,702**	1,409
Retained earnings		**419,014**	429,726
Shareholders' funds		**571,720**	582,139

The Company reported a loss for the financial year ended 31 December 2016 of US$ 2.7 million (2015: US$ 2.3 million).

The financial statements of Gulf Marine Services PLC (registered number 08860816) were approved by the Board of Directors and authorised for issue on 27 March 2017.

Signed on behalf of the Board of Directors

Duncan Anderson
Chief Executive Officer

John Brown
Chief Financial Officer

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

	Called-up share capital US$'000	Share premium account US$'000	Share option reserve US$'000	Profit and loss account US$'000	Total US$'000
Balance at 1 January 2015	57,929	93,247	563	439,900	591,639
Share issue costs	–	(172)	–	–	(172)
Share options rights charge	–	–	846	–	846
Loss for the period	–	–	–	(2,343)	(2,343)
Dividends declared	–	–	–	(7,831)	(7,831)
Balance at 1 January 2016	57,929	93,075	1,409	429,726	582,139
Share options rights charge	–	–	293	–	293
Loss for the period	–	–	–	(2,702)	(2,702)
Dividends declared	–	–	–	(8,010)	(8,010)
Balance at 31 December 2016	**57,929**	**93,075**	**1,702**	**419,014**	**571,720**

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

	Notes	2016 US$'000	2015 US$'000
Net cash flow used in operating activities	10	**(1,797)**	(1,388)
Cash flows from financing activities			
Transaction costs from issue of ordinary shares		**–**	(172)
(Increase)/Decrease in intercompany receivables		**(1,079)**	986
Increase in intercompany payables		**2,443**	782
Dividends paid		**(8,010)**	(7,831)
Net cash used in financing activities		**(6,646)**	(6,235)
Net decrease in cash and cash equivalents		**(8,443)**	(7,623)
Cash and cash equivalents at the beginning of the year		**8,996**	16,619
Cash and cash equivalents at the end of the year		**553**	8,996

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2016

1 Corporate information

Gulf Marine Services PLC is a private limited company incorporated in the United Kingdom under the Companies Act. On 7 February 2014, the Company re-registered as a public limited company. The address of the registered office of the Company is 1st Floor, 40 Dukes Place, London EC3A 7NH. The registered number of the Company is 08860816.

The Company is the parent company of the Gulf Marine Services Group comprising of Gulf Marine Services PLC and its underlying subsidiaries. The consolidated group accounts are publicly available.

These separate financial statements were approved and authorised for issue by the Board of Directors of Gulf Marine Services PLC ("the Company") on 27 March 2017.

2 Accounting policies

Currency

The functional and presentational currency of the Company is United States Dollars.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Directors' Report and Strategic Report.

The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its underlying subsidiaries.

After making enquiries and on the basis of their assessment of the Group's financial position, the Company's Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they have adopted the going concern basis of accounting in preparing the financial statements.

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 (the 'Act') to not present the Company Income Statement nor the Company Statement of Comprehensive Income. The result for the Company for the year was a loss of US$ 2.7 million (2015: loss of US$ 2.3 million).

The principal accounting policies are summarised below. They have all been applied consistently throughout the year.

Investments

Fixed asset investments in subsidiaries and associates are recognised at deemed cost, which is the previous GAAP carrying value at the transition date, less impairment.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities

Financial liabilities are classified as either financial liabilities at Fair Value Through Profit or Loss (FVTPL) or "other financial liabilities".

Trade and other payables, loans from related parties and other liabilities are classified as "other financial liabilities". Other financial liabilities, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short-term payables or when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2016

2 Accounting policies

Financial instruments continued

Financial assets

All financial assets are recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned. They are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through the profit and loss account, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Cash at bank and in hand

Cash at bank and in hand comprise cash balances and call deposits. Bank overdrafts that are repayable on demand form an integral part of the Company's cash management and are included as a component of cash at bank and in hand for the purpose of the statement of cash flows.

Taxation

Current tax, including UK Corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax is measured on a non-discounted basis. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessment periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Share-based payments

The fair value of an equity instrument is determined at the grant date based on market prices if available, taking into account the terms and conditions upon which those equity instruments were granted. If market prices are not available for share awards, the fair value of the equity instruments is estimated using a valuation technique to derive an estimate of what the price of those equity instruments would have been at the relevant measurement date in an arm's length transaction between knowledgeable, willing parties.

Equity-settled share-based payments to employees are measured at the fair value of the instruments, using a binomial model together with Monte Carlo simulations as at the grant date, and is expensed over the vesting period. The value of the expense is dependent upon certain key assumptions including the expected future volatility of the Group's share price at the date of grant. The fair value measurement reflects all market-based vesting conditions. Service and non-market performance conditions are taken into account in determining the number of rights that are expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key sources of estimations which management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Key sources of estimation uncertainty

Impairment of accounts receivable

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision is applied according to the length of time past due and based on historical recovery rates. Any difference between the amounts actually collected in future periods and the amounts expected to be impaired will be recognised in the consolidated statement of comprehensive income.

Critical accounting judgements

Recoverability of investments

Investments in subsidiary undertakings are included in the balance sheet of the Company at deemed cost less any provision for impairment. The Company performs impairment reviews in respect of fixed asset investments whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised when the recoverable amount of an asset, which is the higher of the asset's net realisable value and its value in use, is less than its carrying amount.

4 Dividend on equity shares

Dividends declared and paid during the year	2016 US$'000	2015 US$'000
Final Dividend for 2014: 1.06 pence per share	–	5,624
Interim Dividend for 2015: 0.41 pence per share	–	2,207
Final Dividend for 2015: 1.20 pence per share	**6,123**	–
Interim Dividend for 2016: 0.41 pence per share	**1,887**	–
	8,010	7,831

A final dividend in respect of the year ended 31 December 2016 of 1.20 pence (1.50 cents) per ordinary share is to be proposed at the AGM. These financial statements do not reflect this final dividend.

5 Fixed asset investments

	2016 US$'000	2015 US$'000
Opening balance	**573,546**	517,546
Other non-cash investment	–	56,000
	573,546	573,546

As part of a Group restructuring in 2015, GMS Jersey Holdco 2 Limited issued two shares to the Company in exchange for the assignment of an outstanding intercompany receivable balance due from Gulf Marine Services WLL of US$ 56.0 million. No cash was exchanged during the course of this transaction.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2016

The Company has investments in the following subsidiaries.

Name	Place of registration	Registered Address	Proportion of ownership interest 2016	2015	Type of activity
Gulf Marine Services W.L.L.	Abu Dhabi	MN1 Mussafah Base, Mussafah Industrial Area Abu Dhabi, P.O. Box 46046 United Arab Emirates	**100%**	100%	Marine Contractors
Offshore Holding Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Holding Company
Offshore Logistics Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Naashi"
Offshore Accommodation Invt. SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of "Khawla 181"
Offshore Jack-up Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Kamikaze"
Offshore Craft Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "GMS Endeavour"
Offshore Structure Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Kikuyu"
Offshore Maritime Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of "Helios"
Offshore Tugboat Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of "Atlas"
Offshore Boat Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Kawawa"
Offshore Kudeta Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Kudeta"
GMS Endurance Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Endurance"
Mena Marine Limited	Cayman Islands	Ugland House, Grand Cayman, KY1-1104, Cayman Islands, P.O. Box 309	**100%**	100%	General investment and trading
Gulf Marine Services (UK) Limited	United Kingdom	c/o MacKinnon's, 14 Carden Place, Aberdeen, AB10 1UR	**100%**	100%	Operator of offshore barges
Gulf Marine Saudi Arabia Co. Limited	Saudi Arabia	P. O. Box 257, Dammam 31411 Saudi Arabia	**75%**	75%	Operator of offshore barges
Gulf Marine Services (Asia) Pte. Ltd.	Singapore	1 Scotts Road, #21-07, Shaw Centre, Singapore, 228208	**100%**	100%	Operator of offshore barges
GMS Enterprise Investment SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Enterprise"
GMS Scirocco Investment SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Scirocco"

Name	Place of registration	Registered Address	Proportion of ownership interest 2016	2015	Type of activity
GMS Shamal Investment SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Shamal"
GMS Jersey Holdco. 1 Limited+	Jersey	43/45 La Motte Street, St Helier, Jersey, JE4 8SD	**100%**	100%	General Investment
GMS Jersey Holdco. 2 Limited	Jersey	43/45 La Motte Street, St Helier, Jersey, JE4 8SD	**100%**	100%	General Investment
GMS Marine Middle East FZE	United Arab Emirates	ELOB, Office No. E-16F-04, P.O. Box 53944, Hamriyah Free Zone, Sharjah	**100%**	100%	Operator of Offshore Barges
GMS Global Commercial Invt LLC	United Arab Emirates	Al Mariah Island, Al Sowwa Square, Abu Dhabi, United Arab Emirates	**100%**	100%	General Investment
GMS Keloa Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Keloa"
GMS Pepper Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	–	Owner of Barge "Pepper"
GMS Evolution Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	–	Owner of Barge "Evolution"

+ Held directly by Gulf Marine Services PLC.

6 Debtors amount falling due within one year

	2016 US$'000	2015 US$'000
Amounts owed by Group undertakings	**1,803**	724
Other receivables	**23**	12
	1,826	736

7 Creditors amount falling due within one year

	2016 US$'000	2015 US$'000
Amounts owed to Group undertakings	**3,392**	949
Other creditors	**813**	190
	4,205	1,139

8 Called up share capital and reserves

	2016 US$'000	2015 US$'000
Allotted, called-up and fully paid 349,527,804 shares of 10 pence each	**57,929**	57,929

The Company has one class of ordinary shares which carry no right to fixed income.

The share premium reserve contains the premium arising on issue of equity shares, net of related costs.

The Company's share option reserve for the period of US$ 1.70 million (2015: US$ 1.41 million) relates to awards granted to employees of a subsidiary undertaking under a long-term incentive plan, details of which are provided in note 12.

The profit and loss account represents cumulative profits or losses net of dividends paid and other adjustments.

	Number of shares	Ordinary shares US$'000	Share premium US$'000	Total US$'000
Balance as at 31 December 2016	**349,527,804**	**57,929**	**93,075**	**151,004**

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2016

9 Related party transactions

The Company has taken advantage of the exemption from disclosing related party transactions with other wholly owned Group companies as provided by paragraph 33.1A of FRS 102. The Company and all companies with whom related party transactions took place in the period are wholly owned Group companies, the consolidated accounts of which are publicly available.

Remuneration of key management personnel during the year comprised short-term benefits of US$ 733,389 (2015: US$ 920,190).

10 Cash flow statement

	2016 US$'000	2015 US$'000
Operating loss	**(2,702)**	(2,343)
Adjustment for:		
Share-based payment expense	**293**	846
Operating cash outflow before movement of working capital	**(2,409)**	(1,497)
(Increase)/Decrease in other receivables	**(11)**	28
Increase in other payables	**623**	81
Net cash outflow from operating activities	**(1,797)**	(1,388)

11 Long term incentive plans

The Group has Long Term Incentive Plans (LTIPs), performance shares and share options which were granted to senior management, managers and senior offshore officers. The details of the senior management LTIPs are contained in the Directors' Remuneration Report on pages 47 to 59. The release of these shares is conditional upon continued employment, certain market vesting conditions and in the case of senior management LTIP awards; performance against three-year target EPS compound annual growth rates. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined, using the Binomial Probability Model together with Monte Carlo simulations, at the grant date of equity-settled share-based payments, is expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will ultimately vest. The fair value of each award is determined by taking into account the market performance condition, the term of the award, the share price at grant date, the expected price volatility of the underlying share and the risk-free interest rate for the term of the award.

Non-market vesting conditions, which for the Group mainly relate to the continual employment of the employee during the vesting period, and in the case of the senior management LTIP awards the achievement of EPS growth targets, are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Any market vesting conditions are factored into the fair value of the options granted.

To the extent that share options are granted to employees of the Group's subsidiaries without charge, the share option charge is capitalised as part of the cost of investment in subsidiaries.

The number of share awards made by the Group during the year is given in the table below together with their weighted average exercise price ('WAEP').

	2016		2015	
	No.	WAEP	No.	WAEP
At beginning of the year	**3,679,453**	**–**	1,621,892	–
Granted in the year	**5,014,231**	**–**	2,652,024	–
Forfeited in the year	**(1,442,316)**	**–**	(594,463)	–
At end of the year	**7,251,368**	**–**	3,679,453	–
Exercisable at the end of the year	**–**	**–**	–	–

Outlined below is a summary of the assumptions which have been used to determine the fair value of the share awards:

	LTIP	LTIP
Grant date	23 March 2016	25 March 2015
Share price	£0.71	£1.31
Exercise price	£0.00	£0.00
Expected volatility	40%	34%
Risk-free rate	0.84%	1.008%
Expected dividend yield	3.3%	1.5%
Vesting period	3 years	3 years
Award life	3 years	3 years
Market performance condition	36.0%	37.9%

The expected Gulf Marine Services PLC share price volatility was determined taking into account the average of the volatility of two comparable companies at each of the grant dates.

INTRODUCTION STRATEGIC REPORT PERFORMANCE GOVERNANCE FINANCIAL STATEMENTS ADDITIONAL INFORMATION

The risk free return was determined from similarly dated zero coupon UK government bonds at the time the share awards were granted, using historical information taken from the Bank of England's records.

The charge arising from share-based payments is disclosed in note 8.

12 Financial instruments

Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders.

The capital structure of the Company consists of cash and short-term deposits and equity attributable to equity holders of the parent, comprising issued capital, reserves and loss for the period as disclosed in note 8.

The Company is not subject to any externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies to the financial statements (see note 2).

Categories of financial instruments

	2016 US$'000	2015 US$'000
Financial assets		
Cash at bank and in hand	**553**	8,996
Loans and receivables	**1,826**	736
Financial liabilities		
Amortised cost	**4,205**	1,140

All financial liabilities are repayable upon demand.

Financial risk management objectives and policies

The Company is exposed to the following risks related to financial instruments – credit risk, cash flow and liquidity risk, foreign currency risk and interest rate risk. The management actively monitors and manages these financial risks relating to the Company.

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 Company, and arises principally from the Company's trade and other receivables. The Company has adopted a policy of only dealing with creditworthy counterparties, for whom the credit risk is assessed to be low. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific non-related counter-parties, and continually assessing the creditworthiness of such non-related counter-parties. Balances 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.

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

The Company's principal financial assets are bank balances, and intercompany and other receivables. The Company's main credit risk is primarily attributable to its key intercompany receivables. The Company has no other significant concentration of credit risk. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence for a reduction in the recoverability of the cash flows.

Cash flow and liquidity risk

The Company is not exposed to any significant cash flow or liquidity risk. The Company currently has sufficient cash to fund its activities. However, in the event that additional liquidity is required for ongoing operations and future developments, the Company has access to additional funding from other Group entities which it controls.

Foreign currency risk management

The majority of the Company's transactions are in either UAE Dirhams or US Dollars. Transactions in other foreign currencies entered into by the Company are short-term in nature and therefore management considers that the currency risk associated with these transactions is limited and consequently this risk is not hedged.

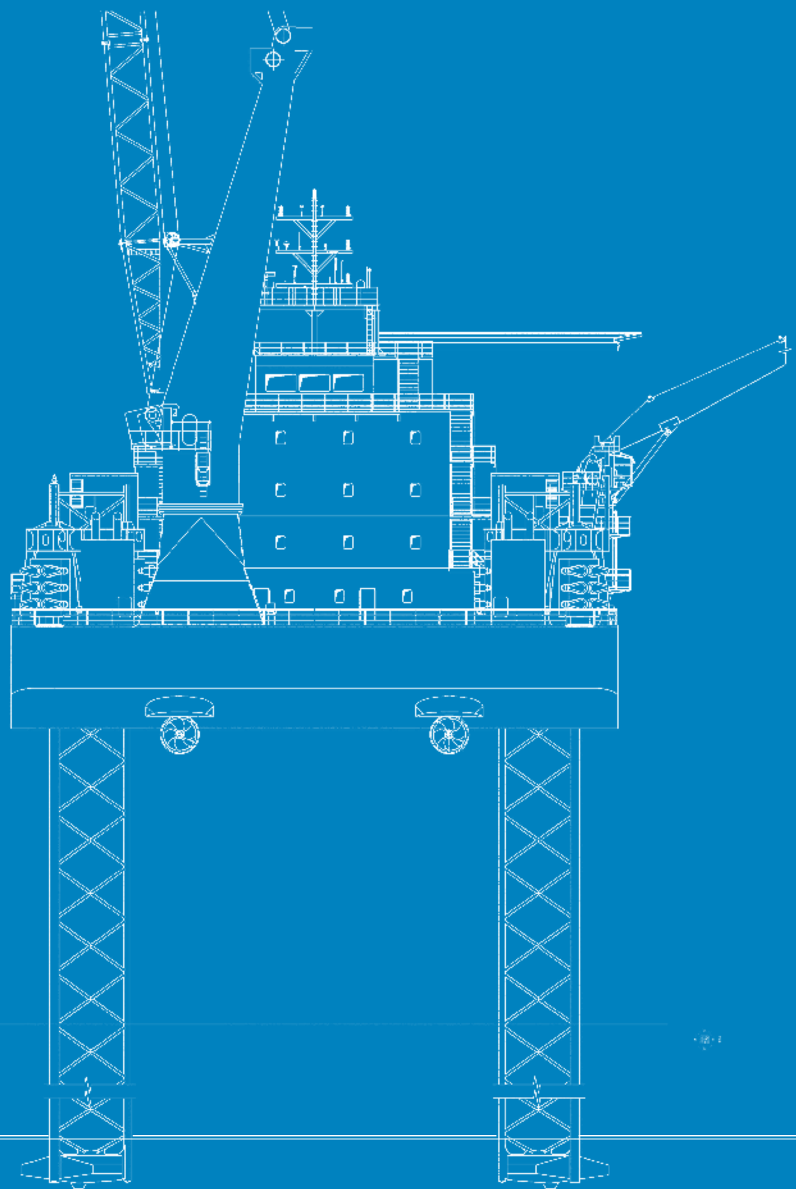
Interest rate risk management

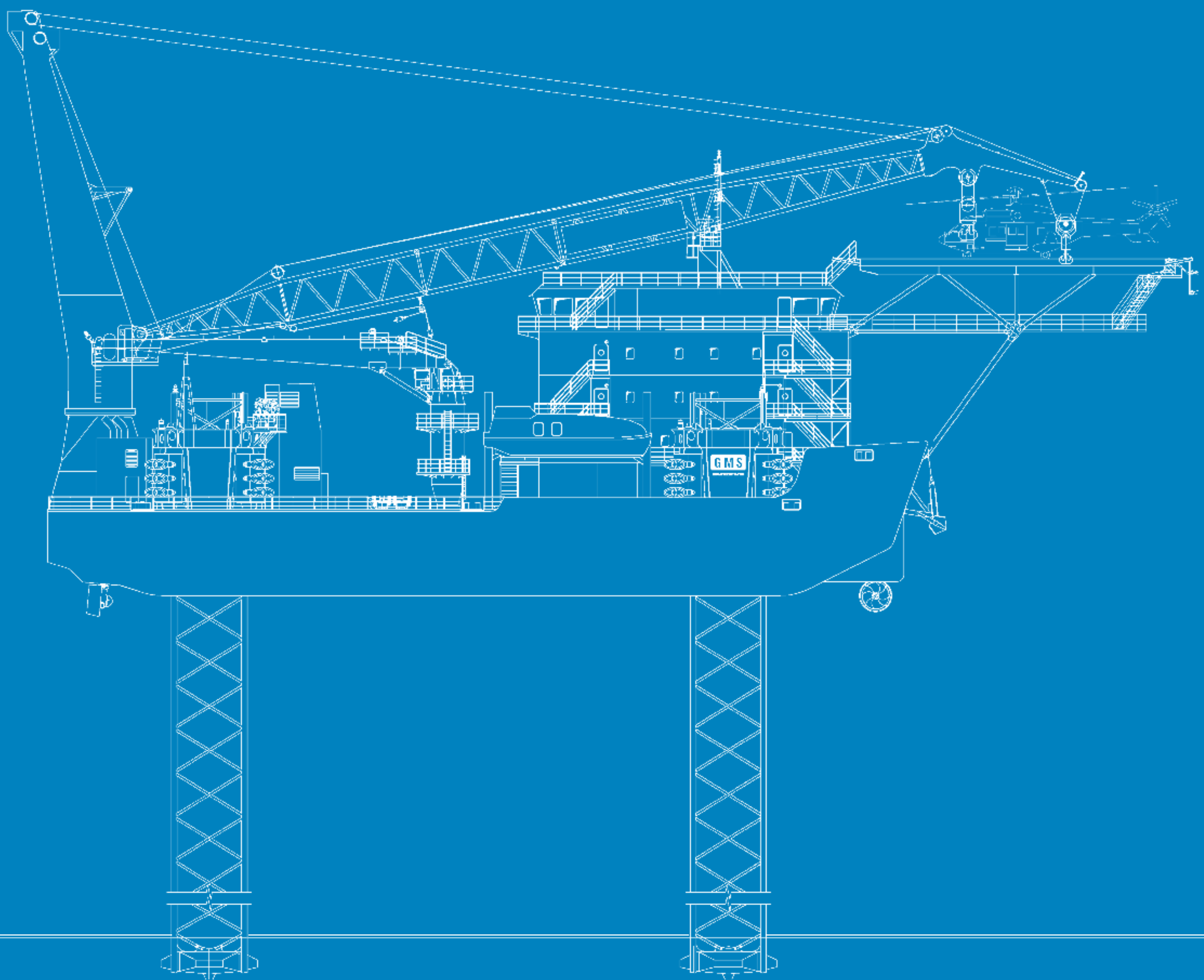
The Company's financial assets and financial liabilities are interest-free; accordingly the Company is not subject to any interest rate risk.

Fair value of financial assets and liabilities

The Company's management considers that the fair value of financial assets and financial liabilities approximates their carrying amounts.

ADDITIONAL INFORMATION




GMS

NOTICE OF AGM

Important information: This document is important and requires your immediate attention. If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant, or other independent professional adviser immediately. If you have sold or otherwise transferred all of your shares, please pass this document together with the accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

GULF MARINE SERVICES PLC
(INCORPORATED AND REGISTERED IN ENGLAND AND WALES UNDER NUMBER 08860816)

NOTICE OF AGM
Notice is hereby given that the third annual general meeting (the "AGM") of Gulf Marine Services PLC (the "Company") will be held on 16 May 2017 at 11.30am (UK time) at Linklaters LLP, One Silk Street, London EC2Y 8HQ, United Kingdom to transact the business set out in the resolutions below.

Resolutions 1 to 11 (inclusive) will be proposed as ordinary resolutions; this means that for each of those resolutions to be passed, more than half of the votes cast must be in favour. Resolutions 12 to 14 (inclusive) will be proposed as special resolutions; this means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour.

Voting on all resolutions will be by way of a poll. The Company believes this will result in a more accurate reflection of the views of shareholders by ensuring that every vote is recognised, including the votes of all shareholders who are unable to attend the meeting but who have appointed a proxy for the meeting. Shareholders have one vote for each ordinary share held when voting on a poll.

Ordinary Resolutions

Report and Accounts

1. To receive the Company's annual accounts for the financial year ended 31 December 2016 together with the Directors' reports and the auditor's report on those accounts (the "2016 Annual Report and Accounts").

Final dividend

2. To declare a final dividend of 1.20 pence (1.50 cents) per ordinary share for the year ended 31 December 2016, to be paid to ordinary shareholders on the register of members at 6.00pm (UK time) on 18 April 2017.

Directors' Remuneration Report

3. To approve the Directors' Remuneration Report set out on pages 47 to 59 of the 2016 Annual Report and Accounts (excluding the Directors' Remuneration Policy).

Re-election of Directors

4. To re-elect Simon Heale as a director.
5. To re-elect Duncan Anderson as a director.
6. To re-elect Simon Batey as a director.
7. To re-elect Richard Anderson as a director.
8. To re-elect Dr Karim El Solh as a director.

Re-appointment of Auditor

9. To re-appoint Deloitte LLP as auditor of the Company, to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company.

Auditor's Remuneration

10. To authorise the Audit and Risk Committee to determine the remuneration of the auditor on behalf of the board of directors.

Authority to allot ordinary shares

11. To authorise the directors generally and unconditionally, in accordance with section 551 of the Companies Act 2006 (the "Act"), to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for, or convert any security into, shares of the Company:

    (a) up to a maximum aggregate nominal amount of £11,650,927; and
    (b) comprising equity securities (as defined in section 560(1) of the Act) of the Company up to a further aggregate nominal amount of £11,650,927 in connection with an offer by way of a rights issue.

    These authorities shall apply in substitution for all previous authorities pursuant to section 551 of the Act and expire on the date of the next AGM or on 30 June 2018, whichever is the earlier, but in each case the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities under any such offer or agreement as if the authority conferred by this resolution had not expired.

    For the purposes of this resolution, "rights issue" means an offer to:

    - holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and
    - holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

      but subject in both cases to such exclusions or other arrangements as the directors may consider necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange.

Special Resolutions

Authority to disapply pre-emption rights

12. That, subject to the passing of resolution 11, the directors be empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred by Resolution 11 above and/or to sell shares held by the Company as treasury shares for cash as if section 561(1) of the Act did not apply to any such allotment or sale, provided that this power shall be limited to:

    (a) the allotment of equity securities or sale of treasury shares (otherwise than pursuant to paragraph (b) of this resolution) to any person up to an aggregate nominal amount of £1,747,639;

    (b) the allotment of equity securities in connection with an offer of equity securities (but, in the case of the authority granted under paragraph (b) of resolution 11, by way of a rights issue only):

        i. to the holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and

        ii. to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

    but subject to such exclusions or other arrangements as the directors may consider necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange; and

    The authorities conferred by this resolution shall expire on the date of the next AGM of the Company or on 30 June 2018, whichever is the earlier, save that the Company may, before such expiry make an offer or agreement that would or might require equity securities to be allotted (or treasury shares to be sold) after the authority expires and the directors may allot equity securities (or sell treasury shares) in pursuance of any such offer or agreement as if the authority had not expired.

    For the purposes of this resolution:

    - "rights issue" has the same meaning as in resolution 11; and
    - the nominal amount of any securities shall be taken to be, in the case of rights to subscribe for, or convert any securities into, shares of the Company, the nominal amount of such shares which may be allotted pursuant to such rights.

Purchase of own shares

13. To authorise the Company generally and unconditionally to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 10 pence each in the capital of the Company, provided that:

    (a) the maximum number of ordinary shares that may be purchased is 34,952,780;

    (b) the minimum price, exclusive of any expenses, which may be paid for each ordinary share is 10 pence; and

    (c) the maximum price, exclusive of any expenses, which may be paid for each ordinary share is the higher of:

        i. 105% of the average closing price of an ordinary share, as derived from the London Stock Exchange Daily Official List, for the five business days prior to the day the purchase is made; and

        ii. the value of an ordinary share calculated on the basis of the higher of the price quoted for:

            (a) the last independent trade of; and
            (b) the highest current independent bid for

        any number of the Company's ordinary shares.

    This authority shall expire on the date of the next AGM of the Company or on 30 June 2018, whichever is the earlier, save that the Company may, before such expiry, enter into a contract to purchase ordinary shares which will or may be executed wholly or partly after the expiry of such authority.

Notice of general meetings, other than AGMs

14. That a general meeting, other than an AGM, may be called on not less than 14 clear days' notice.

By order of the Board

John Brown
Company Secretary
27 March 2017

Gulf Marine Services PLC
1st Floor, 40 Dukes Place, London EC3A 7NH

NOTICE OF AGM CONTINUED

EXPLANATION OF RESOLUTIONS

Resolution 1 – To receive the Report and Accounts
The directors are required to present the Company's audited accounts, directors' reports and auditor's report to the AGM. These are contained in the 2016 Annual Report and Accounts.

Resolution 2 – To declare a final dividend
The board of directors of the Company (the "Board") proposes a final dividend of 1.20 pence (1.50 cents) per share for the year ended 31 December 2016. If approved, the recommended final dividend will be paid on 19 May 2017 to all ordinary shareholders on the register of members at 6.00pm (UK time) on 18 April 2017. The shares will be marked ex-dividend on 13 April 2017.

Resolution 3 – To approve the Directors' Remuneration Report
This resolution deals with the remuneration paid to the directors during the year under review. Shareholders are invited to vote on the Directors' Remuneration Report, which appears on pages 47 to 59 in the 2016 Annual Report and Accounts (excluding the Directors' Remuneration Policy). Resolution 3 is an advisory vote.

The Company does not intend at this AGM to move a resolution to approve the Directors' Remuneration Policy, which appears on pages 48 to 53 of the 2016 Annual Report and Accounts. The Directors' Remuneration Policy was approved by shareholders at the first AGM of the Company held on 6 May 2015. The Company will comply with its legal obligation to prepare and submit for shareholder vote a Directors' Remuneration Policy no less frequently than every three years.

Resolutions 4 to 8 – Re-election of Directors
In accordance with the UK Corporate Governance Code and consistent with relevant institutional voting guidance, all current directors of the Company will seek re-election by shareholders at the AGM. Mike Straughen and Richard Dallas resigned as directors of the Company effective from 1 January 2017.

No independent non-executive director seeking re-election at the AGM has any existing or previous relationship with the Company, nor with any controlling shareholder of the Company or any associate of a controlling shareholder of the Company within the meaning of Listing Rule 13.8.17R(1). In considering the independence of the non-executive directors, the Board has taken into account the UK Corporate Governance Code. The Board continues to consider Simon Batey and Richard Anderson to be independent non-executive directors in accordance with provision B.1.1 of the UK Corporate Governance Code.

In accordance with the Listing Rules, Dr Karim El Solh is classed as a representative of a "controlling shareholder" of Gulf Marine Services PLC and is not considered to be an independent non-executive director. The Company entered into a Relationship Agreement with its "controlling shareholders" effective 14 March 2014 in accordance with Listing Rule 9.2.2AR(2)(a), which serves to ensure that the controlling shareholders and their representatives (including Dr Karim El Solh) comply with the independence provisions outlined in Listing Rule 6.1.4DR.

The Listing Rules also require that independent non-executive directors be elected by a majority of votes cast by independent shareholders in addition to a majority of votes cast by all shareholders in the Company. Therefore, the resolutions for the election of the independent non-executive directors (resolutions 6 and 7) will be taken on a poll and the votes cast by independent shareholders and all shareholders will be calculated separately. Such resolutions will be passed only if a majority of votes cast by independent shareholders are in favour, in addition to a majority of votes cast by all shareholders being in favour.

Full biographies of all the directors are set out in the 2016 Annual Report and Accounts and are also available for viewing on the Company's website (http://www.gmsuae.com). Following a formal Board evaluation process and recommendation from the Nomination Committee, the Board is satisfied that each director seeking re-election at the AGM continues to be effective and demonstrates a commitment to the role and that each such director continues to be able to dedicate sufficient time to their duties. The Board believes that its composition continues to include an appropriate balance of skills and provides effective leadership for the Company.

It is intended that Christopher Foll, currently an alternate director for Dr Karim El Solh, will continue that appointment beyond the AGM without seeking re-election by shareholders. If the resolution to re-elect Dr Karim El Solh is not passed by shareholders at the AGM, the alternate directorship will immediately cease.

Resolution 9 – To re-appoint Deloitte LLP as auditor of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company
At each meeting at which the Company's accounts are presented to its members, the Company is required to appoint an auditor to serve until the next such meeting. The Board, on the recommendation of its Audit and Risk Committee, recommends the re-appointment of Deloitte LLP as auditor.

Resolution 10 – To authorise the directors to determine the remuneration of Deloitte LLP
This resolution gives authority to the Audit and Risk Committee to determine the auditor's remuneration.

Resolution 11 – To authorise the directors to allot ordinary shares
The authority in paragraph (a) of this resolution, if passed, would provide the directors with a general authority to allot new shares and grant rights to subscribe for, or convert other securities into, shares up to a nominal amount of £11,650,927, which is equal to approximately 33% of the issued share capital of the Company as at 27 March 2017, being the latest practicable date before the publication of this Notice.

Paragraph (b) of resolution 11 will grant the directors additional authority to allot 116,509,268 new shares and grant rights to subscribe for, or convert other securities into, shares in connection with a rights issue up to a further nominal amount of, which is equal to approximately 33% of the issued share capital of the Company as at 27 March 2017, being the latest practicable date before publication of this Notice.

When taken together, the authorities proposed in paragraphs (a) and (b) of this resolution extend (before any reduction) to approximately two thirds of the current issued share capital of the Company as at 27 March 2017, being the latest practicable date before the publication of this Notice.

The resolution, if passed, would give the Board the maximum flexibility permitted by investor guidelines to respond to market developments. The Board has no current intention to allot shares except in connection with the Company's employee share schemes but the Board will keep the matter under review.

The authorities conferred by this resolution will expire on the earlier of 30 June 2018 and the conclusion of the Company's next AGM. It is the intention of the directors to seek to renew these authorities every year.

Resolution 12 – To authorise the directors to disapply pre-emption rights
This resolution would, if passed, authorise the directors to allot shares or sell treasury shares for cash (other than in connection with an employee share scheme), without having to offer such shares to existing shareholders in proportion to their own holdings (known as pre-emption rights):

(a) up to a maximum nominal amount of £1,747,639, which represents approximately 5% of the Company's issued ordinary share capital (excluding treasury shares) as at 27 March 2017, being the latest practicable date before publication of this Notice; and

(b) in relation to pre-emptive offers and offers to holders of other equity securities if required by the rights of those securities or as the directors otherwise consider necessary, up to a maximum nominal amount of £11,650,927, which represents approximately one third of the Company's issued ordinary share capital (excluding treasury shares) as at as at 27 March 2017, being the latest practicable date before publication of this Notice, and, in relation to rights issues only, up to a maximum additional amount of £11,650,927, which represents approximately a further one third, of the Company's issued ordinary share capital (excluding treasury shares) as at 27 March 2017, being the latest practicable date prior to the publication of this Notice.

Resolution 12 is consistent with guidance issued by the Investment Association (as updated in July 2016), the Pre-Emption Group's Statement of Principles (as updated in March 2015) (the "Statement of Principles") and the template resolutions published by the Pre-Emption Group in May 2016. The directors confirm that, in accordance with the Statement of Principles, they do not intend to issue shares for cash representing more than 7.5% of the Company's issued ordinary share capital in any rolling three-year period other than to existing shareholders, save as permitted in connection with an acquisition or specified capital investment as described above, unless shareholder have been notified and consulted in advance.

The authorities conferred by this resolution will expire on the earlier of 30 June 2018 and the conclusion of the Company's next AGM. It is the intention of the directors to seek to renew these authorities every year.

Resolution 13 – To authorise the Company to make market purchases of its own shares
This resolution would, if passed, authorise the Company to make market purchases of up to 34,952,780 of its own ordinary shares, representing just under 10% of the Company's issued share capital as at 27 March 2017, being the latest practicable date before publication of this Notice. The resolution specifies the minimum and maximum prices at which the ordinary shares may be bought under this authority.

This authority conferred by this resolution will expire on the earlier of 30 June 2018 and the conclusion of the Company's next AGM. It is the intention of the directors to seek to renew this authority every year.

The directors have no present intention of exercising the authority granted by this resolution, but the authority provides the flexibility to allow them to do so in future. The directors would not exercise the authority unless they believed that the expected effect would promote the success of the Company for the benefit of its shareholders as a whole. Any shares purchased would be effected by a purchase in the market and may either be cancelled or held as treasury shares, which may then be cancelled, sold for cash or used to meet the Company's obligations under its employee share schemes. The Company currently has no shares held in treasury.

As at 27 March 2017, being the latest practicable date before publication of this Notice, the total number of options to subscribe for shares in the Company was 7,251,368 (approximately 2.1% of the Company's issued share capital and approximately 2.3% of the Company's issued share capital if the full authority proposed by resolution 13 was used and the shares purchased were cancelled).

Resolution 14 – Notice of general meetings, other than AGMs
Under the Act, the notice period required for all general meetings of the Company is 21 days. An AGM is required by law to be held on at least 21 clear days' notice but shareholders can approve a shorter notice period for other general meetings.

This resolution would, if passed, allow the Company flexibility to call general meetings, other than AGMs, on not less than 14 clear days' notice. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed. A resolution in identical terms was passed at the previous AGM of the Company, held on 11 May 2016.

The Board confirms that, in its opinion, all of the resolutions are in the best interests of the shareholders of the Company as a whole and unanimously recommends that shareholders vote in favour of them.

NOTICE OF AGM CONTINUED

IMPORTANT NOTES

The following notes explain your general rights as a shareholder and your right to attend and vote at this AGM or to appoint someone else to vote on your behalf.

1. To be entitled to attend and vote at the AGM (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the register of members of the Company at 6.30pm (UK time) on 14 May 2017 (or, in the event of any adjournment, 6.30pm (UK time) on the date which is 48 hours, before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the AGM. There are no other procedures or requirements for entitled shareholders to comply with in order to attend and vote at the AGM. In alignment with best practice for UK listed companies, it is the current intention that each of the resolutions to be put to the AGM will be voted on by way of a poll and not by show of hands. The Company believes that a poll is more representative of shareholders' voting intentions because shareholder votes are counted according to the number of ordinary shares held and all votes tendered are taken into account.

2. The doors will open at 10.30am (UK time) and you are recommended to arrive by 11.00am (UK time) to enable you to register and take your seat in good time. Light refreshments will be provided at the AGM. If you have any special needs or require wheelchair access to the offices of Linklaters LLP please contact Leanne Shergold by e-mail on lshergold@brunswickgroup.com or telephone +44 (0) 20 7396 7480 in advance of the AGM. Mobile phones may not be used in the meeting hall, and cameras and recording equipment are not allowed in the meeting hall.

3. Members are entitled to appoint a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the AGM. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company. A form of proxy which may be used to make such appointment and give proxy instructions accompanies this Notice. If you do not have a form of proxy and believe that you should have one, or if you require additional forms, please contact the Company's registrar Equiniti (the "Registrar"), on 0371 384 2030 (or from outside the UK: +44 121 415 7047). Lines are open from 8.30am to 5.30pm (UK time) Monday to Friday, excluding UK public holidays.

4. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

5. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the "Act") to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

6. The statement of the rights of shareholders in relation to the appointment of proxies in notes 3, 4 and 9 do not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

7. Members meeting the threshold requirements set out in the Act have the right to (a) require the Company to give notice of any resolution which can properly be, and is to be, moved at the AGM pursuant to section 338 of the Act; and/or (b) include a matter in the business to be dealt with at the AGM, pursuant to section 338A of the Act.

8. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the AGM.

9. To be valid, any form of proxy or other instrument appointing a proxy must be received by the Registrar by post or (during normal business hours only) by hand at the address shown on the form of proxy or, in the case of shares held through CREST, via the CREST system (see note 12 below). For proxy appointments to be valid, they must be received by no later than 11.30am (UK time) on 14 May 2017. If you return more than one proxy appointment, the proxy appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.

10. The return of a completed form of proxy or any CREST Proxy Instruction (as described in note 12 below) will not prevent a shareholder attending the AGM and voting in person if he or she wishes to do so.

11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM (and any adjournment of the AGM) by using the procedures described in the CREST Manual (available from www.euroclear.com). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

12. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuers' agent (ID RA19) by 11.30am (UK time) on 14 May 2017. For this purpose, the time of receipt will be taken to the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuers agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

13. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

14. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that no more than one corporate representative exercises powers relation to the same shares.

15. As at 27 March 2017 (being the latest practicable date prior to the publication of this Notice), the Company's ordinary issued share capital consists of 349,527,804 ordinary shares, carrying one vote each. No shares are held in treasury. Therefore, the total voting rights in the Company as at 27 March 2017 are 349,527,804.

16. Under section 527 of the Act, shareholders meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Act to publish on a website.

17. Any shareholder attending the AGM has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the AGM but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

18. The following documents are available for inspection during normal business hours at the registered office of the Company on any business day from 27 March 2017 until the time of the AGM and may also be inspected at the AGM venue (Linklaters LLP, One Silk Street, London, EC2Y 8HQ), from 10.30am (UK time) on the day of the AGM until the conclusion of the meeting:

    a. copies of the directors' letters of appointment or service contracts;
    b. a copy of the articles of association of the Company; and
    c. a copy of the directors' deeds of indemnity.

19. You may not use any electronic address provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

A copy of this Notice, and other information required by section 311A of the Act, can be found on the Company's website at http://www.gmsuae.com.

GLOSSARY

ABS	American Bureau of Shipping.
ADNOC	Abu Dhabi National Oil Company.
AED	United Arab Emirates Dirham. The currency in United Arab Emirates.
Available days	Calculated from a base of 365 days from which any unpaid days spent on mobilisation and demobilisation, planned refurbishment or upgrade work and, in the case of a newly constructed SESV, delivery time are subtracted. Maintenance days included in our contracts are counted as available days.
Average daily vessel operating costs	Average daily vessel operating costs incurred to operate a vessel. Calculated as cost of sales less non-cash items, depreciation, amortisation and impairments divided by 365.
Brownfield project	A project involving the upgrade or modification of existing operations.
Capex-led activities	Defined in the oil and gas sector to include greenfield projects, engineering, procurement and construction activities, installation and decommissioning and, with respect to EOR activities, water injection and gas injection. Typically funded out of our clients' capital expenditure budgets.
Company (or Group) website	www.gmsuae.com
Day rate	Income received by the Company in respect of each day a vessel is chartered to a client.
DP2	Dynamic positioning system with full redundancy meaning that should one component fail there is a backup component that takes over.
Dynamic positioning	A computerised positioning system which maintains the vessel position by using its own propellers and thrusters.
EOR	Enhanced Oil Recovery. Consists of the injection of foreign components (e.g. chemicals) to recover a larger proportion of the remaining oil at the final stages of the field life.
GCC	Gulf Cooperation Council, the political and economic alliance of six Middle Eastern countries comprising Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman.
Hotel services	Income received by the Company for the provision of accommodation and meals provided to client personnel charged on a per person per day basis.
HSE	Health, Safety and Environment.
HSSEQ	Health, Safety, Security, Environment and Quality.
Lump sum	Income received by the Company at the beginning of a new charter party agreement relating to the costs and time taken to prepare the vessel.
LTIR	Lost Time Injury Rate is calculated on the lost time injury rate per 200,000 man hours which is a measure of the frequency of injuries requiring employee absence from work in the year for a period of one or more days.
MENA	Middle East and North Africa.
Opex-led activities	Operating expenditure-led activities. Defined in the oil and gas sector to include fabric maintenance, well intervention, brownfield upgrade and modification projects and retrofit or upgrade activities with respect to EOR activities. Typically funded out of our clients' operating budgets.
SESV	Self-Elevated Support Vessel designed to cater to a range of offshore assets and equipment such as drilling products and to support inspection, maintenance, repair, diving and construction activities.
Smaller company	The UK Corporate Governance Code defines a smaller company as one that is below the FTSE 350 throughout the year immediately prior to the reporting year.
Topside operations and maintenance	Consists of the maintenance, modification and operation of platforms during the production phase of the offshore field lifecycle.
TRIR	Total Recordable Injury Rate is calculated on the injury rate per 200,000 man hours and includes all our onshore and offshore personnel and subcontracted personnel. Offshore personnel are monitored over a 24-hour period.
Utilisation	The percentage of available days in a relevant period during which an SESV is under contract and in respect of which a customer is paying a day rate for the charter of the SESV.
Utilisation rate	Actual number of days a vessel is on hire divided by the number of available days in a year.
Well intervention	Consists of services (coiled turbine, pumping, workover, subsea landing string and other services) to maintain production levels in the primary and secondary phases of oil production.

Alternative performance measures (APMs)

An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

Alternative performance measures are non-GAAP measures that are presented to provide readers with additional financial information that is regularly reviewed by management and the Directors consider that they provide a useful indicator of underlying performance. However, this additional information presented is not uniformly defined by all companies including those in the Group's industry. Accordingly, it may not be comparable with similarly titled measures and disclosures by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself an expressly permitted GAAP measure. Such measures should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

Adjusted diluted earnings per share – represents the adjusted profit attributable to equity holders of the Company for the period divided by the weighted average number of ordinary shares in issue during the period, adjusted for the weighted average effect of share options outstanding during the period. The adjusted profit attributable to equity shareholders of the Company is earnings used for the purpose of basic earnings per share adjusted by adding back the impairment charge mainly on non-core vessels which has been charged to the income statement in the period.

EBITDA – represents Earnings Before Interest, Tax, Depreciation and Amortisation, which represents operating profit after adding back depreciation, amortisation and non-operational impairment charge.

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

Adjusted EBITDA margin – represents adjusted EBITDA divided by revenue.

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

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

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

Net debt – represents the total bank borrowings less cash.

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

NOTES

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Duncan Anderson
Chief Executive Officer

Simon Batey
Senior Independent Non-Executive Director

Richard Anderson
Independent Non-Executive Director

Dr Karim El Solh
Non-Executive Director

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