Repositioning for the future

Gulf Marine Services PLC
Annual Report 2019

In this report

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Financial Statements

Also online at **gmsuae.com/ar2019**

2020 commentary is as at 30 April 2020.

Our vision

To be the best SESV operator in the world

2019 Overview

Revenue

US$ 108.7m

Utilisation

69%

Adjusted EBITDA

US$ 51.4m

Annualised cost savings

US$ 13.0m

Loss for the year

US$ (85.5m)

Employee engagement

82%

2019 Financial Highlights

- Adjusted EBITDA at US$ 51.4 million was ahead of the August Guidance of US$ 45-48 million[1]. While 11% lower than in 2018, this reflects lower revenues, partially offset by the impact of cost savings.
- Net cash flow before debt service[2] rose to US$ 41.9 million (US$ 2018: US$ 5.9 million) due to disciplined management of capex and working capital, in the second half of the year.
- Significant progress was made in reducing costs. The 2019 cost saving programme delivered US$ 13.0 million on an annualised basis during the period, significantly exceeding the original target of $6m set in March 2019. 2019 results reflect a saving of US$ 5.6 million, split between opex, capex and administrative expenses. The remaining savings will flow into the 2020 results.
- Revenue fell by 12% to US$ 108.7 million (2018: US$ 123.3 million) reflecting lower rates and shifts in the utilisation mix.
- Loss for the year before adjustment was US$ 85.5 million, mainly arising from the impact of impairment charges totalling US$ 59.1 million, on two of our E-Class vessels, the Naashi and a S-Class cantilever, and US$ 6.3 million of restructuring costs.
- Average day rates decreased by 14% across all classes of vessel, as 2017/18 legacy contracts expired. Market rates have been broadly flat over the last twelve months.
- The Group is considered to be a Going Concern, but subject to a material uncertainty relating to the need to complete documentation relating to the restructuring of facilities announced on 31 March 2020 and the management of a tight short-term liquidity position. This is explained in further detail below.

See Glossary.

2019 Operational Highlights

- HSE Performance was stable with Lost Time Injury Rate at 0.19 (2018: 0) at the end of 2019. Total recordable injury rate was 0.29 (2018: 0).
- Operational downtime remained low at 2018 equivalent levels.
- Average fleet utilisation stable at 69% (2018: 69%) with underlying changes in the mix by vessel class. Average E-Class utilisation reduced, reflecting soft market conditions in North West Europe. S-Class and K-Class utilisation improved, reflecting strengthening demand in Middle East and North Africa (MENA).
- Eleven new contracts were awarded, with a combined charter period of 13 years (including options), rising to 15 years including contract extensions.

2019 Governance Highlights

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

2020 Highlights and Outlook

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

COVID-19

- The combination of COVID-19 and low oil prices brings significant operational and financial risks that are being experienced by all businesses across the energy sector. It is not possible to quantify the impact in the current constantly changing environment, however the high level of contracted utilisation (76% for 2020) and supply chain flexibility, provides some risk mitigation to GMS.
- Downside scenarios are regularly assessed, and further cost saving measures are in place to ensure that the business is in a position to operate successfully while maintaining adequate liquidity. Current year-to-date[3] adjusted EBITDA for Q1 2020 is slightly better than the Company's 2020 Business Plan.
- The Group is closely monitoring potential counter-party risks and resultant liquidity and pricing pressures, with particular focus on the impact of the current situation on suppliers and customers.

Material Uncertainty Statement

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

1 Guidance of US$ 45-48 million was issued in August 2019 at the time of replacement of Chief Executive. This was later upgraded to US$ 48-50 million in December 2019.
2 Net cash flow before debt service is the sum of cash generated from operations and investing activities.
3 3 months to 31 March 2020.

Driving efficiencies

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

Repositioning the business for the future

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

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

Governance

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

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

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

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

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

Group performance

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

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

While the Adjusted EBITDA outturn for the year has fallen since 2018, it exceeds the US$ 45–48 million guidance offered in August 2019, at the time of leadership change[1]. This reflects the impact of additional cost savings delivered in the second half of the year. The cost saving programme is running ahead of plan and is expected to deliver further savings to the Group's bottom line in 2020. This has been achieved by the delivery of further reductions in headcount, with a focus on eliminating Senior Management positions, the closure of offices and redundant facilities, and the reduction in costs of the supply chain through competitive tendering and contract renegotiation.

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

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

Capital structure and liquidity

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

Whilst the absence of binding loan agreements and the Group's tight short-term liquidity position represent a material uncertainty, that has been highlighted in our Financial Statements[2], the Directors believe that, based on the progress made to date, there is good reason to believe that final loan documentation will be completed in a timely fashion; and that the Group's working capital and liquidity position can be managed effectively during that period.

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

Commercial and operations

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

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

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

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

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

COVID-19 and Outlook

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

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

A variety of measures have been put in place to respond to the challenge of COVID-19, and the associated fall in oil prices. All travel has been stopped. Crew changes have been restricted offshore, and onshore staff are working virtually. Further reductions have

& maintaining quality

2 See Note 3 in the consolidated financial statements.

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

been made in the organisation size and remaining onshore staff are also working shorter hours on reduced salaries (75% of normal). Directors have also volunteered a 25% reduction in fees. I have taken a further 15% cut for a total of a 40% reduction in base pay whilst the office operates remotely. Cash bonus payments due to be paid in Q2 2020 for 2019 performance have been deferred. Critical supplier availability has been analysed to minimise the risk of disruption to operations.

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

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

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

Conclusion

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

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

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

GMS

How would you describe the performance of GMS during 2019?

It was clearly a difficult year, and as a result, 2019 has seen a tremendous amount of change. We cannot hide from that fact. This change was necessary in order to reposition the business in a highly competitive environment. The adjusted EBITDA guidance reset in August was disappointing, but the business has responded positively since then. Through driving further cost savings and efficiencies, winning new business and relocating of our vessels, we have positioned the business to manage the current uncertainties from a position of relative strength.

How has COVID-19 impacted the business?

This unprecedented scenario presents severe and far-reaching challenges across the industry and for our business. GMS has already made changes to protect the health and well-being of employees, contractors and communities, putting clear preventative measures in place, while fully adopting the latest guidelines and advice from the government authorities in each of the countries where we operate. We've also taken steps to further reduce costs, to help manage the economic challenges. The potential impact of COVID-19 is difficult to predict with any degree of certainty. The high level of committed contracts that we have secured, and the strong preventive measures, that we have put in place, provide some mitigation, but this will continue to be a significant issue for companies across our business sector for some time.

What metrics are used when assessing the performance of GMS?

Safe and reliable operations for our customers underpin everything we do. So HSSEQ and high-quality maintenance management systems are key to the ongoing health of the Group. Our KPIs on pages 26 to 27 show the principal metrics we use at GMS to track performance.

What quick wins achieved in the past year would you particularly highlight?

We've delivered a material reduction in our cost base, at the same time preserving the safety and efficiency of our operations and our delivery to customers. The changes that we have made to our remuneration policy have also promoted greater alignment within the organisation, towards driving shareholder value.

Q&A

This has obviously been a tough year for GMS. What motivates the team to drive the Group forward?

GMS has a long history in high quality operations driven by the passion and dedication of our people. This has remained strong throughout our current difficulties and we are learning to be open about past failures and to learn from them to deliver this service more efficiently. We needed to be honest with ourselves about the overdue need for change and the cultural change that was required. The task for the new leadership has been to define a clear roadmap to meet the challenges that we face and we have broad alignment across the organisation to that roadmap.

Where is the team based and what countries do you visit in your work?

The team is based primarily at the Group's headquarters in Abu Dhabi, with smaller operational offices in key markets. We regularly make visits to our customers, investors and other stakeholders in our core markets within the Middle East region and North West Europe. And we also constantly look at other potential markets for our services.

What is your view of the employees working for GMS?

Well firstly, I would like to thank all of them for their dedication and hard work in what has been a challenging period. We've had to make some hard and frankly overdue decisions, as we've reduced headcount and changed the culture to deliver a competitive cost base for the business. I have been impressed at how our people have been open to change and have stepped up to meet these challenges, delivering for customers in often difficult circumstances.

Governance

How has the governance changed over the last 12 months?

The entire Board (both Executive and Non-Executive) has been replaced in the last 18 months, reflecting feedback from shareholders. The new Board has a balance of industrial, financial and commercial knowledge within the regions in which we operate, to take the business forward. The Board is now engaged, having spent considerable time getting to know the business and its employees.

We've also completely restructured our remuneration policy to bring it in line with best practice for UK-listed public entities. Both long and short-term incentive plans have been restructured to tie them more effectively to shareholder value drivers, with all variable pay now being at risk, if performance targets are not met for the business as a whole.

How have the new Directors added value to the Group?

The commitment of our new Directors has been critical to enabling the transformation that was necessary. They each bring unique skills and perspective which have been invaluable as we guide the Group through this difficult phase and they have devoted significant time to GMS, reflecting the situation facing the Group.

Market

What is the biggest challenge facing GMS today?

Our biggest challenge in the short term is to manage the issues that have arisen due to COVID-19 and the resultant impact on oil price. However, once we've worked through that we need to recognise that we will still be operating in a highly competitive environment. We will therefore need to continue to provide excellent service to our customers at a competitive cost. This requires a relentless focus on operating costs and efficiencies; ensuring swift and effective mobilisations and vessel maintenance; looking for opportunities to provide complementary, value added services to customers, and seeking out new customers. The agreement of a non-binding term sheet with our banks to re-set the capital structure of the Group, reached in Q1 2020, is a major step forward.

Where are the opportunities for growth in the medium term?

Until the recent outbreak of COVID-19, our core market in the Middle East was showing growing signs of demand, evidenced by the number of tender opportunities across all markets. Notwithstanding the current uncertainties, these tenders are continuing and this was a key consideration behind relocating two of our E-Class vessels from North West Europe.

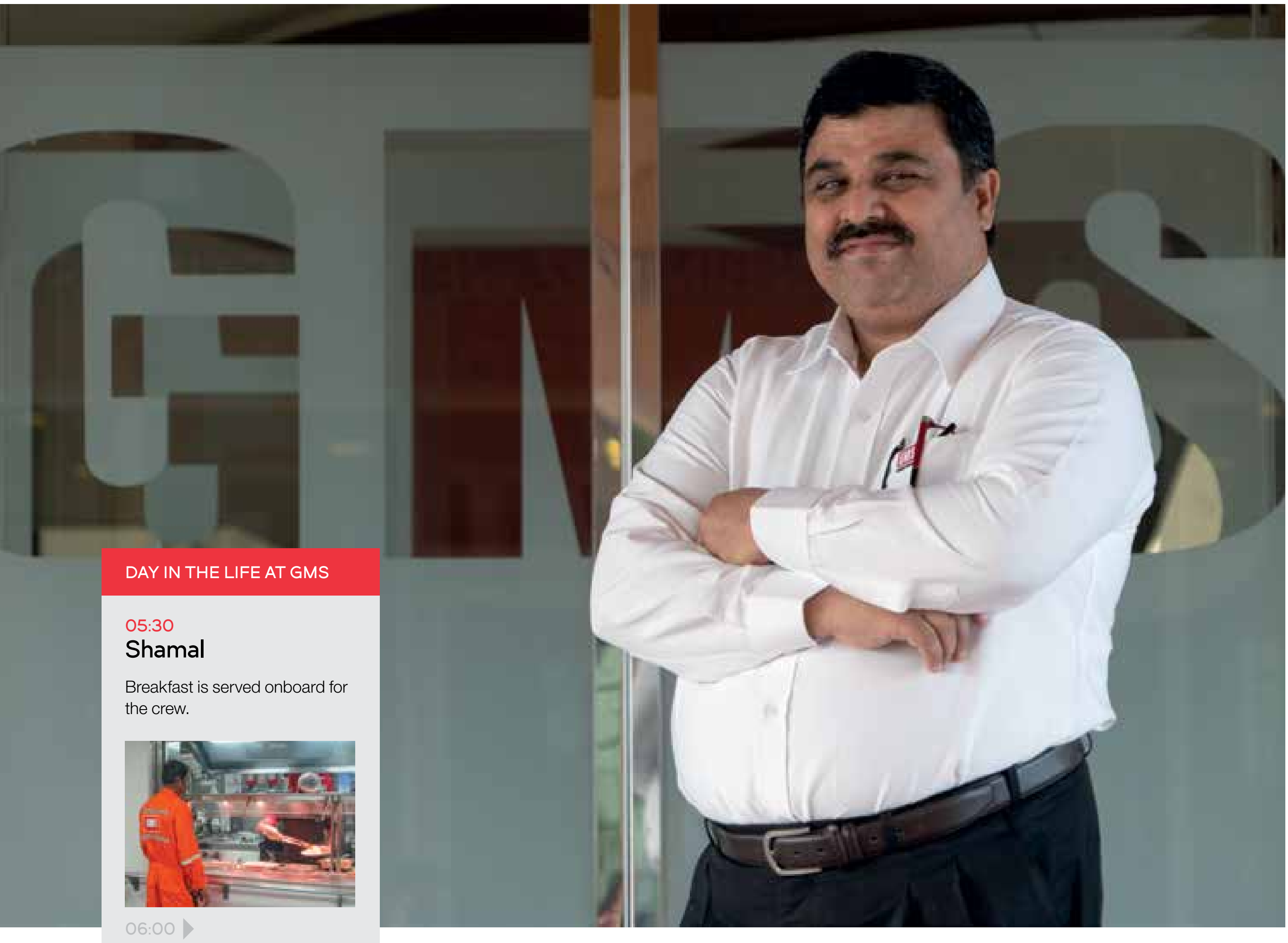
A key strength of our fleet, though, is its ability to operate in a variety of locations and industries. We are confident in the medium term prospects for the renewables market in North West Europe, as the next round of wind farm developments move forward. We are constantly looking at other markets in Africa and Asia for growth opportunities. We also see opportunities to grow revenues by expanding our service offering to existing customers.

Successor

Is there an update on the appointment of the Chief Executive?

Our current focus is on navigating the current challenges thrown up by COVID-19, stabilising the business and achieving a sustainable capital structure through completing the restructuring of our debt facilities. It is important that we find the right candidate to take the business forward. We are working hard to ensure we are able to attract the right person into the business, to whom I can hand over responsibilities at the appropriate time.

Our culture is evolving to support our business



DAY IN THE LIFE AT GMS

05:30

Shamal

Breakfast is served onboard for the crew.

06:00

Headcount

Total number of employees	Offshore	Onshore	Voluntary turnover
457	377	80	18%
(2018: 536)	(2018: 423)	(2018: 113)	(2018: 14%)

Responsibility

We are committed to the health and safety of our employees, subcontractors, clients and partners, and to behaving with environmental responsibility. We focus on assuring the safety of everything we design, construct, operate and maintain.

We are cost-conscious and manage our risks effectively. We continually seek opportunities to grow our business and to create value for our shareholders.

We behave responsibly in all our business relationships.

Excellence

We always look for better ways to meet our clients' needs through continuous improvement. We build on our past experiences and embrace innovation.

We set ourselves challenging targets to deliver a superior performance and to exceed our stakeholders' and clients' expectations.

Reputation and integrity are important to us. We work with rigour and transparency to ensure we are the preferred contractor of choice.

Relationships

We build trust with our clients, partners, subcontractors, suppliers, investors and the communities in which we work.

We aim to attract and retain premium staff for our business and ensure they are empowered to carry out their duties safely and effectively.

We value the diversity of our employees, provide an environment where everyone can perform to their full potential and be rewarded for delivering excellence.

Values

We incorporate our core values of Responsibility, Excellence and Relationships into all aspects of our business. We are committed to ensuring the health and safety of our employees, subcontractors, clients and partners and to upholding high ethical standards.

Turnover

2019 saw material change in the business, with the organisational structure simplified and posts removed. Despite this, voluntary employee turnover was stable relative to 2018, and the move towards a more transparent performance-based culture will help nurture our existing talent. In 2019 GMS has promoted 56 employees.

Diversity

Our workforce consists of 457 personnel recruited from 36 countries, and the significant experience and skills they bring to GMS helps us to conduct our business from a global perspective.

The information below and to the right provides details of the gender diversity and country of origin of our personnel as at 31 December 2019.

For cultural and legal reasons, the extent to which we can increase the number of offshore female personnel is limited. For example, we cannot employ women offshore in the countries in which we currently operate in the Middle East due to local labour laws which stipulate that women cannot work in an inappropriate environment and hazardous jobs/industries. As the provisions of the UK Government's Equality Act 2010 relating to gender pay gap disclosure are not applicable to GMS, this information has not been provided.

Number of offshore employees

377

377

(2018: 421 male/2 female)

Number of onshore employees

80

49 31

(2018: 78 male/35 female)

Total number of Directors

6

5 1

(2018: 4 male/1 female)

Nationalities

36

(2018: 37)

Total number of Senior Managers (includes the Executive Chairman and CFO who are also included in the Board)

4

4

(2018: 8 male)

Total number of Direct Reports to Senior Managers

17

11 6

(2018: 18 male/4 female)

Male Female

DAY IN THE LIFE AT GMS

06:00

Enterprise

The crew meet to discuss the planned operations and work scope for the day. Permit to works and risk assessments are reviewed and discussed before they go onto the deck and commence working.

08:30

Employee engagement

We launched our first employee engagement survey at the end of 2019 with an 82% completion rate which is consistent with the global benchmark completion rate of 80% for all companies.

The areas where our employees scored us as needing attention are communicating more often as a Group and between departments and creating opportunities to provide constructive ideas on how to improve our processes. In 2020 we launched our internal 'Bright Ideas' campaign, but we know we still have work to do.

During the year Dr Shona Grant was appointed as the designated Non-Executive Director, responsible for ensuring engagement with the workforce is included in Board discussions and decisions. Read more about Shona's role in the interview on page 11.

Employees who feel safe at GMS

96%

Employees who feel their job is secure

72%

Employees who believe GMS' Core Values are relevant within their role

92%

Employees who feel fairly rewarded for their job

68%

Employees who are proud to work at GMS

90%

Employees who see opportunities for their own career advancement at GMS

77%

DAY IN THE LIFE AT GMS

08:30

Kikuyu

Daily operations meeting conference call to GMS office HQ in Abu Dhabi, to discuss any issues and challenges that have occurred in the last 24hrs, planned operations and sharing information.

10:00

What our people say

"GMS is a great place to work and I feel lucky to be part of the team. I feel respected and valued for what I bring to the Group. Working with professionals I continuously learn from and who always help me to tackle any challenging task is really important to me."

"GMS has provided me with the opportunity to work in a friendly multicultural environment. I'm grateful to have had a chance to develop my career here and am looking forward to many more years with GMS."

What our customers say

Larsen & Toubro are an existing EPC client who we have supported in Saudi Arabia, where they have a significant presence.

"We are happy with GMS's safety performance and reliable offshore support. The 40 years' experience that GMS has in the Middle East helps in tackling many issues without delay due to their processes and systems developed in the way the local business is carried out. The Company's track record and ability to provide solutions for our operational needs from flexible vessels remains one of our key considerations in working with GMS. Their prices are competitive too."

What our suppliers say

Aramark are our largest supplier and have been providing catering and hospitality services to GMS since 2009. This includes cooking, serving, cleaning and laundry across our fleet in the countries we operate in.

"Aramark has been working with Gulf Marine Services (GMS) for over ten years across the Middle East and North Sea and has recently agreed a new five year term through competitive tender.

Aramark and GMS share very similar core values which lends itself to successful and safe operations both offshore and onshore. The evolution of the GMS business over the past 18 months has encouraged further and deeper partnering to identify means to drive cost efficiencies and whilst maintaining service excellence and safe operating practices. We look forward to our continued relationship during the next term of our agreement."

KenzFigee provide cranes on our S-Class vessels and have been supplying GMS since 2015 including ongoing maintenance repairs.

"KenzFigee has been working with GMS in the Middle East since the installation of our offshore cranes on their vessels in 2015. We partner very closely with the GMS team in Abu Dhabi to keep the cranes in top condition. Their care, dedication and technical skills, have resulted in the cranes being operational without any malfunction over the past 5 years. A great achievement of everyone involved!"

Share ownership

We encourage employee share ownership and have operated a long-term incentive plan since 2014. Please see pages 50 to 73 in the Remuneration Report for further details.

Performance

The Short-Term Incentive Plan (STIP) structure was completely redesigned during 2019 so that all employees including Executive Directors are working towards the same transparent targets. There are no guaranteed variable pay awards in GMS, with all pay being performance-based. This aligns with shareholder interests and encourages a performance-based culture to achieve Group objectives.

Succession planning

Given the situation in the Group, as well as the small size of GMS, it is a reality that many posts will be filled by external hires. A basic succession planning process is in place but is rudimentary in nature and has not been the priority of Management in 2019.

Learning and Development

We ensure all of our people maintain the relevant technical and regulatory training required to fulfil their job roles. As seafarers, all crew maintain their relevant STCW (Standards of Training, Certification and Watchkeeping – a worldwide convention that ensures a lateral standard of training is achieved across all countries in the world) qualifications that licenses them to operate our barges in accordance with International Maritime Organisation requirements. For barges operating within the offshore Oil & Gas Sector, we also ensure all crew complete additional required training in areas such as, but not limited to, offshore safety and awareness training and emergency response training. As we reposition the business, we have had to temporarily stop discretionary development training. This will be reviewed in 2020.

Ethical practice

The Group operates responsibly in accordance with the formal legal and regulatory disclosure requirements expected of a UK listed Company.

Our 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 and our reputation and success is dependent on our staff putting the Code into practice in all our dealings with our stakeholders.

GMS also maintains an awareness of human rights issues, which is reflected in our suite of Group policies including our Anti-Corruption and Bribery Policy, Anti-Slavery Policy, Social Responsibility Policy and Whistleblowing Policy.

Whistleblowing reporting service

There were no whistleblowing cases reported in 2019. In January 2020, an independent reporting service for whistleblowing was introduced. It operates confidentially, is available 24 hours a day and is staffed by highly skilled professional call handlers. This service:

- Gives a voice to our employees, contractors, suppliers and supply chain and other stakeholders;
- Helps maintain a culture of openness;
- Demonstrates that GMS takes malpractice seriously;
- Provides Senior Management with an overall temperature of the business; and
- Supports employees who speak up.

The Whistleblowing policy also has a strict non-retaliation commitment to support any employees who speak up.

DAY IN THE LIFE AT GMS

10:00

Enterprise

Testing takes place on one of the Diesel Generators after routine maintenance completed.

11:00

Environmental, Social and Governance Factors

During the year the Group has implemented the following initiatives which will reduce our carbon footprint:

Closure of UK and Mina port offices
The Group closed UK and Mina port offices as a part of restructuring activities at the end of 2019. This will lead to electricity and energy consumption efficiencies in 2020.

Shut down of construction activities
GMS shut down all construction facilities at the end of 2018. This has had a major impact on scope 2 emissions, with the eradication of other gas use, and a reduction in electricity consumption.

Decrease in business travel
The Group has taken conscious measures to reduce unavoidable business travel, therefore reducing the related carbon footprint.

Change in refrigerant
The Group has changed the refrigerant used on vessels for the cooling process to R407 which reduces global warming emissions into the environment by approximately half as compared to the previous refrigerant. This is a measure we expect to be able to report on in 2020.

The Group has consulted an independent third-party verifier- Energy and Carbon Management ("ECM") to report environmental performance on the Greenhouse Gas (GHG) emissions during the year ended 31 December 2019. Their report summarises the organisational and operational boundaries, associated emissions, annual reporting figures and methodologies for GMS, in accordance with the regulatory obligation Part 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

In calculating the GHG emissions, ECM has used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) emission factors from the UK Government Conversion Factors for Company Reporting 2019, Version 1.01.

The table below shows the data points that are required under the UK Government regulatory requirements.

Global GHG Emissions data for period 1st January 2019 to 31st December 2019

	Tonnes of CO_2e	
Emissions from:	Current reporting year 2019	Comparison year 2018
Combustion of fuel and operation of facilities	46,573	42,930
Electricity, heat, steam and cooling purchased for own use	580	819
Total	47,153	43,749
Total Revenue in the reporting period (US$)	108,721,000	123,335,000
Company's chosen intensity measurement: Emissions reported above normalised to the ratio of tonnes of CO_2e per US$ 1,000,000 of Group revenue	433.77	354.72

The total emission (tCO_2e) figures for all Scope 1 and Scope 2 emissions reportable by GMS are as follows:

Utility and Scope	2019 UK and Global Consumption (tCO_2e)	2018 UK and Global Consumption (tCO_2e)	Difference (tCO_2e)	Difference %
Scope 1 emissions (building and process)	3,554	228	+3,326	+1,459%
Scope 2 emissions (buildings and process)	580	819	-239	-29.2%
Scope 1 emissions (transport)	43,018	42,702	+316	+0.7%
Total	47,152	43,749	+3,403	+7.8%

DAY IN THE LIFE AT GMS

11:00
Head office

Meeting between Finance, Commercial and Operations to discuss latest management reporting pack inputs.

12:00

A 0.7% increase in transport emissions (fuel oil consumption) even though vessel utilisation remained flat, is mainly due to increased vessel movements during the on-hire period. The consumption of fuel oil during the operation of the vessels is the largest contributor to the Group's GHG emissions for the 2019 reporting year. Although the vessels are leased to clients on a long-term basis, we have chosen to account for their GHG emissions within our footprint, in accordance with the operational control approach to developing this GHG footprint. Fugitive emissions from refrigerant gases (R404) topped up on the vessels have also been included in reporting for the year ended 31 December 2019 but not 2018. GMS is continually looking for ways to positively impact climate change. As such the 2019 results include these fugitive emissions resultant from refrigerant topped up on our vessels in this year's report with an aim to introduce targets for reduction in future.

Q&A

Workforce Engagement Director Q&A with Independent Non-Executive Director Dr Shona Grant

What have you done on employee engagement elsewhere (if applicable)?

I have been leading people for most of my career and frankly you can't lead anyone anywhere if you don't engage with them in a meaningful way.

What does the role involve?

The role was created in response to the changes to the UK Corporate Governance code. Different ways of complying with the Code were considered by the Board and it was decided to create this role. However, this should not be seen as just a paper exercise. The Board recognises that more needs be done to engage with the workforce, not least because of the substantial amount of change that has taken place within GMS during 2019. We also believe it is vital to engage all staff in our efforts to improve GMS's profitability going forward, and in maintaining a productive and safe work environment where everyone's contribution is valued.

Why has the Board decided to create this role?

We fully anticipate that the role will evolve over time. During 2019 the work has focused on creating a baseline on where GMS is today when it comes to staff engagement, including what the workforce considers the Group "does well" and the "not so well". This has involved meetings with staff representatives and culminated in the preparation of a workforce engagement survey that went "live" in December with results received in early 2020. I envisage participating in follow-up meetings with the GMS HR department to review the feedback from this survey. This will then lead to the development of recommendations for the Management of GMS and the Board.

During 2020, I also expect to continue to meet with workforce representatives from across the Group when opportunities arise, and to meet regularly with the HR department.

How do you intend to integrate the knowledge gained from workforce engagement into the work of the Board?

This will also evolve over time. As a minimum we anticipate a standing "People" item on the Board agenda, much as we do with HSE today. During the first half of 2020 one of the "People" agenda items was for the Board to review the feedback and recommendations from the workforce engagement survey. I also anticipate that any key strategic decisions being considered by the Board will include a "workforce" component in the decision making process that is more formal that it perhaps was previously.

DAY IN THE LIFE AT GMS

12:00
Kamikaze

Crew conduct routine watchkeeping rounds in the engine room On Board.

14:00

Generate long-term shareholder value

Our objective is to create long-term shareholder value through the delivery of modern, innovative and sustainable solutions to our clients in the offshore energy sector, maximising the advantage our operational flexibilities provides. In order to achieve this, we focus on the four strategic priorities set out here.

Strategic priority	What it means
#1 **Drive Revenue**	Maximise utilisation through best in class operations. Continually enhance the fleet, offering new and improved offshore support solutions to anticipate client needs. Optimise the fleet to ensure deployment matches demand.
#2 **Manage Cost**	Deliver safe and cost effective operations. Continual cost efficiencies throughout the business and reduce our working capital.
#3 **Establish and operate within an appropriate financial framework**	Establish appropriate long-term sustainable capital structure.
#4 **Ensure people in the right role with the right skills**	Attract and retain talented people with the right range of skills, expertise and potential in order to maintain an agile and diverse workforce that can safely deliver our flexible offshore support services. Train our staff to the highest operational standards.

DAY IN THE LIFE AT GMS

14:00
Endurance

Lifeboat Drill.

15:00

2019 progress	Future priorities & challenges
11 contracts announced with a combined charter period of 13 years including options, rising to 15 years including contract extensions. At the end of the year, management decided to relocate two E-Class vessels from North West Europe to the Middle East to better match supply with demand.	Securing backlog. Getting the two E-Class vessels on contract. Exploring further opportunities to diversify our market exposure. Identify and participate in longer term opportunities in North West Europe where we see sustainable revenue streams. Continue to monitor potential counter-party risks and resultant liquidity and pricing pressures driven by COVID-19 and resultant oil price drop.
Annualised cost savings of US$ 13.0 million delivered. Cost savings of US$ 5.6 million realised in 2019. General and Administrative expenses reduced by US$ 2.4 million. Supply chain optimisation.	Continual focus on efficiency. Ensure delivery of remaining annualised cost savings.
On 31 March 2020, lenders signed a non-binding term sheet restructuring the debt. execution of binding agreements will grant covenant flexibility, a reduced amortisation profile, and access to working capital and bonding facilities.	Deliver legally binding loan documentation to reflect the commercial terms agreed in principle with the banks in the term sheet. Having delivered a stable debt foundation, work with equity investors to inject fresh equity capital into the business.
Fundamental governance and management overhaul with the replacement of the Chairman, the CFO and all but the most recently appointed Non-Executive Directors. Organisational reduction and simplification with a completely new leadership team. Improved communication and cross-functionality among departments.	Appointing a new CEO. Building and developing a core management talent pool.

DAY IN THE LIFE AT GMS

15:00

Endeavour

Helicopter lands on the helideck and drops off 8 passengers to join the vessel.

17:30

The business model to create value is centred on a commitment to providing a flexible and cost-effective solution for customers operating in the offshore oil, gas and renewable energy sectors using a modern fleet of self-propelled Self-Elevating Support Vessels (SESVs).

Our resource

Safety culture

Safety is the top priority and is underpinned by an HSSEQ management system and strong safety-focused culture.

Young and modern fleet

With an average age of nine years the fleet of 13 SESVs is one of the youngest in the industry. This is especially important in the tendering process for new contracts as increasingly clients are demonstrating a preference for modern vessels that can bring significant cost and operational efficiencies to their projects.

Highly skilled workforce

A multi-cultural workforce is recruited from more than 35 countries and has extensive experience in the global SESV sector. GMS trains operations people to the highest standards through the GMS Training Academy so they can develop and reach their full potential and contribute to the long-term success of the business.

Flexibility

GMS works in different industries and in different locations. The flexibility of the fleet allows service delivery across a broad geographical footprint to a diverse range of clients. Maintaining a market footprint in a diversity of business sectors and geographies is a key competitive strength, providing resilience for the business in times of fluctuating demand.

DAY IN THE LIFE AT GMS

17:30
Kamikaze

The Master conducts his daily safety tour of the vessel to ensure all work being safely conducted.

18:00

Our operations

Operates a modern fleet of self-propelled SESVs

GMS owns and operate a fleet of modern SESVs, which are chartered to global clients, providing cost-effective and safe offshore support solutions. With an average age of only nine years, the majority of the vessels will generate revenue for the next 25 years. GMS currently supports oil, gas and renewable energy clients in the MENA region and North West Europe.

Expands capability through innovation

GMS leads the field in technological innovation, using skills and experience to enhance vessels capability and to expand the service offering. This helps to broaden our markets and to maintain a competitive edge.

Operational excellence

GMS strives for excellence in all operations and offers a broad range of services to clients, allowing them to achieve greater operational efficiency and significant time and cost savings. GMS maintains the highest levels of safety performance to protect clients, employees and contractors, and minimise impact on the environment.

Drives performance through reportable metrics

GMS assesses productivity across the Group by ensuring metrics are clear, aligned, communicated and regularly reported. The annual Short Term Incentive Plan corporate scorecard was overhauled during 2019 to better focus on performance and thereby productivity for all employees. See page 66 for further details on the metrics and the outcome of the 2019 assessment.

What we deliver

Shareholders

An emerging track record of delivery on improved governance, contract awards, cost management and improved operational practices.

Customers

Safe, reliable and cost-effective services that allow clients to maximise their operations. The safety focus means that GMS has outperformed industry peers.

People

An engaged workforce focusing on performance in a positive and open environment.

Suppliers

Long-term partnerships focusing on maximising local content.

DAY IN THE LIFE AT GMS

18:00

Kamikaze

Operations of the Power Generation System from the Main Switchboard.

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Group for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to:

- the likely consequences of any decision in the long term;
- the interests of the Group's employees;
- the need to foster the Group's business relationships with suppliers, customers and others;
- the impact of the Group's operations on the community and the environment;
- the desirability of the Group maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Group.

During the year the Board have maintained an approach to decision-making that promotes the long-term success of the business and is in line with the expectations of Section 172. The disclosures set out here demonstrate how GMS deals with the matters set out in Section 172(1)(a) to (f). Cross-references to other sections of the report for more information are also included.

How we engage with our stakeholders	Their Objectives	Our Board's Involvement and Decisions Taken
Shareholders		
GMS shareholders are mainly institutional investors and private shareholders located across the world. The Executive Chairman and/or Chief Financial Officer met with major shareholders after the Half-Year and Full-Year Results and at investor meetings. The Executive Chairman has interacted with shareholders on 63 occasions since starting the position at the beginning of April 2019. The number of trading updates in the year increased to provide more transparency in the business through a regular flow of information.	Investors are concerned with a broad range of issues including, but not limited to, financial and operational performance, strategic execution, management of corporate risk, and capital allocation (including bonus payments for management and dividends for investors).	The Directors of GMS receive a report on the Group's major shareholders from the registrar in line with the Corporate Governance and results calendar. The Executive Chairman and Senior Independent Director also meet with institutional investors at least annually to discuss governance, strategy and remuneration or at the request of a particular shareholder. During 2019 there was a General Meeting requisitioned by a shareholder which was held after 18 March 2019. Following the vote against the Remuneration Report at the 2019 AGM, shareholder consultations were undertaken and, as a result, the Remuneration Policy was updated, (refer to pages 50 to 73 for details). GMS' current financial situation has resulted in suspended dividend payments.
Clients		
GMS works closely with customers to deliver an industry-leading offering. Senior Management engage regularly via face to face meetings to ensure GMS fully understands operational performance; client service and safety are the key drivers of meetings. Through this engagement, GMS learns about current activity levels of competitor vessels, immediate and ongoing tender requirements and future demand and changes to strategy and/or technical or operational requirements. This informs critical business decisions associated with fleet deployment, prioritising future business development activity and resource and local content investment (HR, Procurement and Local Partnerships). It also helps with overhead sizing and allocation and capital expenditure planning, while meeting client needs.	Clients are mainly concerned with ensuring value for money in the services received. They also wish to ensure that services meet their specifications and are delivered efficiently and safely.	The Board is informed of all tender activity at each Board meeting. Currently capital allocation decisions are limited to keeping vessels in class and equipment in good condition and meeting specific client requirements. In the longer term capital allocation will be reviewed when resources are available. Total Group spend on capex in 2019 was US$ 10.2 million. See pages 28 to 31 for more details.
Lenders		
2019 saw an extensive amount of dialogue between the Executive Chairman and Chief Financial Officer, our financial advisors and our legal counsel, as well as with lenders and their advisors and legal counsel as part of the capital structure negotiations. As a result of this dialogue, a non-binding term sheet restructuring the debt facilities was agreed, to the benefit of both parties. We anticipate the associated loan documentation to be complete by 30 June 2020.	Lenders are primarily concerned with ensuring that the capital value of their loans are protected, and that interest is paid. For highly leveraged businesses, where risk to lenders increases, they will take a close interest in financial performance, cost control and cash flow.	The Board is briefed at every Board Meeting about the status of the ongoing discussions with lenders by management, and supported regularly by its Financial Advisor and Legal Counsel.

How we engage with our stakeholders	Their Objectives	Our Board's Involvement and Decisions Taken
Suppliers		
GMS' supply chain is fundamental to the ability to deliver reliable operations. The Group has a strategy of long term partnerships with key suppliers based on regular and transparent communication with suppliers through site visits, calls and surveys.	Suppliers are primarily focused on fair and timely payment terms as well a collaborative approach and open terms of business. GMS works together to maximise in country spending which is a requirement from NOC clients.	In 2019 as part of the cost savings programme major supply contracts were retendered or renegotiated to improve efficiency and reduce costs. The Board received regular updates on this during the year.
People		
The quality of the workforce is vital to the success of GMS. 2019 saw increased communication to both on and offshore staff via town hall meetings, regular updates and video communication from the Executive Chairman to all offshore staff. In December GMS launched the first employee engagement survey. Refer to page 7 for more details on our people and values.	Employees are concerned with job security, opportunities for training, a culture of fairness, inclusion and communication, compensation and benefits.	During the year, as part of compliance with the 2018 UK Corporate Governance Code, GMS appointed Dr Shona Grant as the designated Non-Executive Director for employee engagement issues. Dr Grant has visited the head office in Abu Dhabi several times in 2019. In December 2019, the Board approved the 2020 Annual Budget, which included the Short Term Investment Plan targets. Further, the Board reviewed the work of the Remuneration Committee, which gave consideration to the fixed and variable incentives to the Executive Directors, and other relevant plans for Group-wide employee remuneration.
Environment		
GMS is committed to responsible environmental policies and the system is compliant with the globally recognised ISO 14001 (Environment) standard. The versatility of the vessels has allowed GMS to build a strong reputation in the Renewables sector. GMS strictly monitors and report greenhouse gas emissions, which are disclosed on page 10. GMS is committed to managing risk associated with climate change and as such has taken the decision to implement the Task Force on Climate-related disclosures (TFCD) framework by 2022.	Minimisation of pollution and spills. Minimisation of harmful emissions, particularly greenhouse gases.	The Board receives HSSEQ updates at each Board meeting. Environment and climate change related risks are discussed in the Audit and Risk Committee.
Communities		
As a Group with significant financial difficulties to grapple with, over the last twelve months, it is important that GMS's work in this space is carried out pragmatically, given the level of financial resources and the need for total focus across the organisation to protecting the viability of the business. Focus has therefore been primarily on insuring GMS actively maximises local content across the core countries, in which it operates.	In most of our core markets in the Gulf, where the diversification of economic activity away from oil and gas production is paramount, the promotion of local industries is seen as a prime community objective.	The issue will be discussed at Board Meetings as and when relevant to a material commitment requiring Board Review.

2019 saw increased activity levels among NOCs in the Middle East, which improved utilisation for our S- and K-Class vessels. In North West Europe, where three of our E-Class vessels were until the end of the year, softened market conditions for renewables work meant utilisation for our E-Class decreased to 51%. Rates remained under pressure and were lower in 2019 across all vessel classes.

Map legend

E-Class

S-Class

K-Class

Markets

MENA

There has been a significant shift to opex-led activities as GMS has been securing long-term contracts with National Oil Companies, thus providing more stability for revenues in the medium term.

MENA revenue in 2019 was 75% of total revenue (2018: 66%). We secured 11 contracts with a combined charter period of 13 years including options. During the year, seven of the Group's nine vessel mobilisations were to new contracts in the Middle East. In response to increased market activity within the region, at the end of 2019 we decided to relocate two of our E-Class vessels from the North West Europe to MENA. At the same time, we have strengthened our presence in Qatar, creating an operational presence in country to respond to market demands and client requirements.

The increasing importance placed by MENA NOCs on local content requirements as part of their tender processes has become increasingly pronounced. These requirements are designed to give preference to suppliers that commit to improving their local content and levels of spend and investment in-country. GMS fully embraces these programmes and now with established offices in each of the key locations in MENA that we operate in, is well positioned for winning future work, whilst at the same time looking at how to continue to improve in-country content and the likelihood of success when tendering work for NOC clients in these countries.

During the year GMS prequalified with an NOC on a manpower services contract, which led to the first successful award in early 2020, demonstrating the ability to diversify our value proposition to meet client needs. This contract is for the provision of all trades and supervision required to support an NOC with maintenance of offshore platforms.

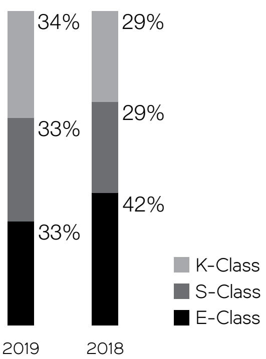
North West Europe

Market conditions in the North Sea have been challenging. We therefore decided to relocate two E-Class vessels from North West Europe to MENA. One vessel remains in the North Sea to meet future demand anticipated as the next phase of wind farm projects gather pace.

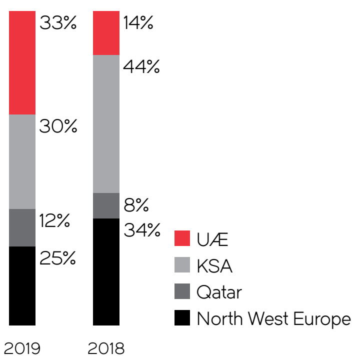
HSSEQ

HSSEQ continues to be a top priority. In 2019 more than 2 million working hours were accumulated across our operations (2018: 4.1 million) with no spills or unintended releases that cause damage to the environment. In 2018 man-hours were calculated using a 24-hour working day. In 2019 the way man-hours are calculated was changed to a 12-hour working day to align with standard industry practice. Like for like hours in 2019 would be 4.1 million hours. Three employees were injured in separate incidents over the same period (2018: Nil), two Lost Time Injuries and one Medical Treatment case with 18 man-days lost. There were no serious near misses or high potential incidents in 2019 or 2018.

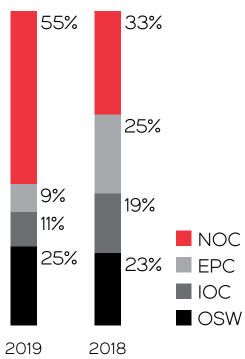
Revenue by vessel class



Revenue by geographical location



Revenue by customer base




United Kingdom
Endurance
Evolution
Endeavour
Germany
Endurance
Qatar
Kikuyu
Enterprise
UAE
Kawawa
Keloa
Scirocco
Shamal
Pepper
KSA
Shamal
Sharqi
Enterprise
Kudeta

The effective identification, management and mitigation of business risks and opportunities is integral to the successful delivery of the Group's strategic objectives. A risk management system is in place to support the identification, analysis, evaluation, mitigation and ongoing monitoring of risks as shown in the framework below.

Board of Directors
The Board has overall responsibility for the Group's strategy and ensuring effective risk management.

Audit and Risk Committee
Responsibilities include reviewing the Group's internal control and risk management systems as well as monitoring the effectiveness of the Group's internal audit function.

Senior Management
The Senior Management team implements the risk management process from risk identification to management and mitigation.

Internal Audit
There are clear reporting lines from the internal audit function to the Audit and Risk Committee and the Senior Management team.

The framework encompasses the policies, culture, organisation, behaviours, processes, systems and other aspects of the Group that, taken together, facilitate its effective and efficient operation. Business risks across the Group are addressed in a systematic way through the framework, which has clear lines of reporting to deal with the management of risks, and improvement of internal controls where appropriate.

The Board has overall responsibility for ensuring that risks are effectively managed. The Audit and Risk Committee has been delegated the responsibility for reviewing the effectiveness of the Group's system of internal control and procedures as a practical matter. There were no significant weaknesses identified by the Board as part of their review during the year. The process begins with identifying risks through quarterly reviews by individual departments. This contains an assessment of the principal risks facing the Group. Mitigating controls are then identified.

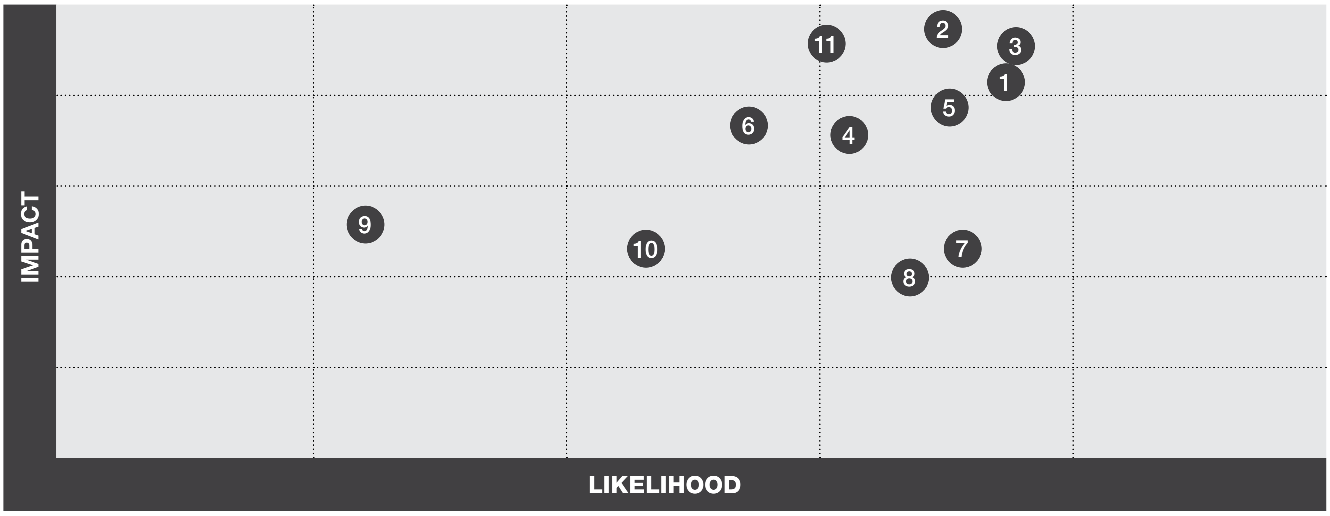
The departmental reviews are then consolidated by the Senior Management team to identify an overall heatmap. Emerging risks are also identified through these discussions and included in reporting to the Audit and Risk Committee, who review the risk profile at least quarterly. The Board reviews the risk profile formally on an annual basis (see page 44 for details of the Board's actions as part of their review).

COVID-19

The management of risk across the organisation has clearly been significantly impacted with the arrival of the COVID-19 pandemic across our major markets, and its resultant impact on oil prices. While this is a constantly changing environment, robust controls have been put in place to mitigate these risks. These are subject to weekly review and update by Senior Management. The Board and the Audit and Risk Committee are briefed on these issues on a regular basis and are given the opportunity to offer challenge and steer on how these issues should be managed. Our approach to managing these risks is summarised in the detailed risk management framework set out below.

Residual Risk Heat Map

1 Liquidity and debt servicing
2 Inability to secure an appropriate capital structure – Equity
3 Oil and Gas Market
4 Operations: inability to deliver safe and reliable operations
5 Customer concentration
6 Legal, economic, and political conditions of operating in the Middle East
7 People
8 Cyber crime – security and integrity
9 Compliance and regulation
10 Failure to meet customers' requirements
11 COVID-19 pandemic



Principal risks and uncertainties

The rating of the principal risks facing the Group in the short to medium term are set out below, together with the mitigation measures. These risks are not intended to be an exhaustive analysis of all risks.

Risk	Mitigating factors and actions

1 Liquidity and debt servicing

Due to the Group's current level of debt, relative to cash flow and EBITDA, it faces the risk that:

1. It might be unable to service capital and interest obligations as they fall due.
2. It might fail to meet its covenant obligations at the relevant testing dates.

This would precipitate an event of Default under the Loan Agreements, which would, in turn, give lenders the right to accelerate repayment of the outstanding loans, and then exercise security over the Group's assets, should immediate payment not be made. This would trigger an insolvency.

In that context, the business is highly exposed to short-term liquidity management risks arising from potential:

1. Increases in interest rates, which further increase debt service obligations.
2. Unexpected increases in working capital (particularly through inability to collect receivables).
3. Supplier disruption due to high level of supplier overdues.

If access to bonding facilities is restricted, precipitated by the current funding difficulties, then our cash flows will be impacted, either through the requirement to cash collateralise bonds or turn away business.

Renegotiation of bank facilities
The Group has agreed a non-binding term sheet to amend and extend bank facilities with its Lending Group. If the documentation is completed by 30 June 2020 as expected, this will reduce the severity of existing covenant tests, while extending the tenor for the repayment of principal. It will also deliver access to adequate working capital facilities and bonding.

Liquidity management
The Group has significantly reduced overdue receivables and continues to manage liquidity carefully through focusing on receivables collections and managing the timing of supplier payments. Short term cash flow, through to the finalisation of the loan deal, is tight.

The need to complete binding loan documentation in respect of the Group's restructured banking facilities and the Group's tight short-term liquidity position indicate a material uncertainty that may cast significant doubt as to the Group's ability to continue as a going concern. Notwithstanding this material uncertainty, the Directors believe that based on the progress made to date in this regard, there is good reason to believe that final loan documentation will be completed in a timely fashion; and that the Group's working capital and liquidity position can be managed effectively. Refer to Note 3 of the consolidated financial statements.

Cost management
The Group has implemented a comprehensive cost reduction programme, removing over US$ 13 million of annualised costs in order to generate higher EBITDA and increased cash to service debt. Continual review of costs and search for further efficiencies is ongoing.

Hedging strategies
The Group has taken out hedges to help mitigate the risk of volatility of interest rates. See Note 10 of the consolidated financial statements for further details.

Risk	Mitigating factors and actions

2 Inability to secure an appropriate capital structure – equity

A continuing low share price driven by not having a suitable long-term debt profile may prevent GMS from raising sufficient levels of equity to get an acceptable capital structure solution.	Renegotiation of the debt facilities (discussed above) will provide a platform for rebuilding confidence in equity holders by giving the business time to deliver its turnaround plan, without the risk of lenders precipitating an insolvency. Beyond that, the delivery of lower operating costs and higher utilisation, through improved efficiencies, safe and reliable operations and building strong customer/stakeholder relationships, will be key to driving improved profitability and cash flow, which is expected to deliver shareholder confidence and a higher share price.

3 Oil and Gas Market

Despite the current drop in global oil demand arising from COVID-19, the Middle East Oil and Gas market is active, with new vessels entering the market from Far Eastern shipyards offering attractive financing structures in order to reduce high levels of inventory of completed vessels. An increase in supply could lead to lost opportunities to charter our vessels. This in turn could reduce our ability to secure contracts. MENA NOCs have introduced local content requirements as part of their tender processes designed to giving preference to suppliers that commit to improving their local content and levels of spend and investment in-country. This may prevent GMS from winning contracts or lead to financial loss and/or reduction in margins on existing contracts which will ultimately impact cash flows and profitability. The change in ownership/structures for North Sea oil and gas businesses could lead to changes in client requirements or demand for our services, which we may not be able to meet and therefore our customer base may reduce, and contracts may be lost.	**Business segment and geographical diversity** The Group has established businesses outside its core Middle Eastern markets (particularly in the North Sea), and outside of oil and gas (renewables). **Targeting** We target contracts that align with availability of vessel spec and that comply with client requirements. **Market knowledge and operational expertise** The Group has a track record of established long-term relationships in the MENA region and North West Europe, which provides an understanding of our clients' requirements and operating standards. **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 capable of modifying assets to satisfy client requirements and can do so in its own yard where appropriate. We embrace local content requirements with a long history of operating for NOCs in the Middle East.

4 Operations: inability to deliver safe and reliable operations

The Group may suffer commercial and reputational damage from an environmental or safety incident involving our employees, visitors or contractors. Inadequate preparation for emergency situations such as pandemics, natural disasters, geopolitical instability, could have a negative impact on our business. Insufficient insurance coverage may lead to financial loss. This is generally relevant but also specifically in relation to the relocation of our vessels.	**Safety awareness** Safety and reliability are top priorities and are underpinned by our HSEQ 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. **Training and compliance** Our employees undergo continuous training on operational best practices. **Scheduled maintenance** The Group follows regular maintenance schedules on its vessels and the condition of the vessels is consistently monitored. **Business continuity plan** The Group has in place a business continuity management plan which it regularly maintains. **Insurance** The Group regularly liaise with insurance brokers to ensure sufficient coverage.

Risk	Mitigating factors and actions
5 Customer concentration	
The Group is reliant on a limited number of NOCs, IOCs and international EPC clients. If one of our clients were to move away from us to a competitor, this would lead to changes in our contract profile and pipeline and expose us to losses.	**Continuous communication with clients** The Group maintains strong relationship with its clients though continuous communication and a history of providing safe and reliable services. **Business Segment and Geographical Diversity** The Group has established businesses outside its core Middle Eastern markets (particularly in the North Sea), and outside of oil and gas (renewables). It is actively looking to diversify its market footprint.
6 Legal, economic, and political conditions	
Political instability in the regions in which we operate (and recruit from) may adversely affect our operations. Continuing uncertainty surrounding trade arrangements following the UK's exit from the European Union ('Brexit') and potential legislative changes results in increased uncertainty over future policy, and regulation in the United Kingdom, which could impact Group operations.	**Emergency response planning 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. **Workforce planning and monitoring** Workforce planning and demographic analysis is completed in order to increase diversity. **Brexit** We support the free movement of goods, services and people. Management continue to monitor the status of the UK Government's negotiations, changes in legislation and future policies.
7 People	
Attracting, retaining, recruiting and developing a skilled workforce is key. Losing skills or failing to attract new talent to our business has the potential to undermine performance. Inadequate succession planning and lack of identification of critical roles may result in disruption if the related personnel leave the Group.	**Communication** Communication aligns towards our common goals. Feedback from employees is actively sought, using employee surveys. A Board member is explicitly tasked with monitoring the level of engagement and alignment across the organisation. **Remuneration Policy** The Short Term Incentive Plan (STIP) has been restructured around a single Business Scorecard to ensure all staff are incentivised around a single set of common goals. In December 2019 we completed the first formal Employee Survey and results are being evaluated and appropriate actions are being implemented. **Equal opportunities** GMS are engaged in fair and transparent recruitment practices. We have a zero-tolerance policy towards discrimination and we provide equal opportunities for all employees. **Resource planning** The Group is in the process of identifying critical roles and preparing plans to ensure smooth transition in case of changes in personnel.
8 Cyber crime – security and integrity	
Phishing attempts result in inappropriate transactions, data leakage and financial loss. The Group is at risk of loss through financial cybercrime.	**Cybersecurity monitoring and defence** GMS operates multi-layer cybersecurity defences which are monitored for effectiveness to ensure they remain up to date. We engage with 3rd party specialists to provide security services.

Risk	Mitigating factors and actions

9 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 which includes anti-bribery and corruption policies and all employees are required to comply with this Code when conducting business on behalf of the Group. Employees are required to undergo in-house training on anti-corruption. All suppliers are pre-notified of anti-bribery and corruption policies and required to confirm compliance with these policies.

Regulations
A central database is maintained which documents all our policies and procedures which comply with laws and regulations within the countries in which we operate. On specialist topics, we make use of external advisors, where appropriate. In 2019 we appointed a dedicated Company Secretary to help monitor compliance, in particular, with regard to UK legal and corporate governance obligations.

External Review
Our Internal Audit function helps ensure compliance with GMS policies, procedures, internal controls and business processes. The Group's vessels are also audited by external bodies such as the American Bureau of Shipping (ABS).

10 Failure to meet customers' requirements

There is a risk that the Group's fleet capabilities no longer match with changing client requirements. Failure to deliver the specifications and expected performance could lead to reputational damage and impact our ability to win work.

Flexibility and innovation
We respond directly to client feedback, which allows us to bid on a wide range of contracts.

Vessel monitoring
The Group has procedures in place such as the Planned Maintenance System to ensure that the vessels undergo regular preventative maintenance. The Group's robust operating standards result in minimal downtime.

11 COVID-19 pandemic

There is a health and safety risk to staff, both onshore and offshore, who come in contact with confirmed cases.

There is the risk that offshore staff will be unable to board or leave Group vessels, given restrictions on movement placed by the countries in which we operate.

There is the risk that onshore staff will be unable to work as normal due to mandatory health and safety restrictions, placed by Government, including quarantine and travel restrictions.

Disruption might be caused to the supply chain, caused by the impact of COVID-19 on our suppliers' operations.

The impact of COVID-19 and the resultant adverse impact on oil prices, on our client's financial position might lead to loss of new business development opportunities, the re-negotiation of existing contracts, or failure of clients to pay.

Hygiene measures
We have implemented extensive hygiene control and prevention measures across the fleet and for our onshore staff. Our clients have adopted similar measures, in many cases in compliance with strict Government directives in force across the countries in which we operate.

Offshore rotations
Crew change restrictions are in place to protect offshore staff from exposure to infection.

Remote working
Onshore staff are working virtually from their homes, with only a skeleton workforce in our main office.

Supply chain
We have reviewed our supply chain to ensure we can make alternative arrangements, in the event of supply disruption. In most critical cases we have UAE based alternatives.

Customer base
76% utilisation has already been secured on committed contracts in 2020. Demand in the Middle East remains robust with core customers continuing with extensive tender programmes. 12 of our 13 vessels are now based in the Middle East. Most of our major customers are well capitalised National or International Oil Companies.

Emerging risks

GMS operates an emerging risk framework as a tool for horizon scanning with developments reported to the Audit Committee on a routine basis. Emerging risks are defined as a systemic issue or business practice that has either not previously been identified, has been identified but dormant for an extended period of time (five years); or has yet to rise to an area of significant concern. There is typically a high degree of uncertainty around the likelihood of occurrence, severity and/or timescales.

Climate change is a wide-ranging and complex topic that interconnects to a number of the Group's principal risks including customer concentration, requirements and compliance and regulation. While the immediate focus is on the challenges facing GMS, the Group remains cognisant of the wider context in which we operate and, in particular, the impact of climate change.

As an SESV operator in both the oil and gas and renewables industries, we recognise the extent to which it has risen up the agendas of the general public, clients, investors and employees. As outlined on page 10 GMS aims to comply with all environmental laws and regulations in the countries where we operate and to introduce target emissions reductions in the future. While the fleet is currently primarily in the Middle East, our strong track record with our renewables clients means we are well positioned. The Board will continue to monitor climate change as an emerging risk and assess the appropriateness of its risk mitigation strategies.

Viability Statement

In accordance with provisions of the 2018 revision of the UK Corporate Governance Code, the Board has assessed the prospects and the viability of the Group over a longer period than the 12 months required to determine the going concern basis of preparation of the financial statements of a business. The Board assessed the business over a number of time horizons for different reasons, including the following: Annual Business Plan (2020), and Five-year Business Plan. The assessment took into consideration the potential impact that the Group's principal risks and uncertainties detailed above could have on the business model, liquidity and future performance within the review period.

The Directors have determined that a period of three years from the balance sheet date is appropriate for the purposes of conducting this review. This period was selected with reference to the current backlog and business development pipeline, both of which offer limited visibility beyond three years, particularly in light of current macro-economic volatility. A three-year period is also aligned with industry peers. The Board reviews annually and on a rolling basis the strategic plan for the business which management progressively implements.

The Group has agreed a non-binding term sheet with the bank syndicate to restructure the existing debt facilities. GMS and the banks are working to finalise full loan documentation by 30 June 2020. To allow this process time to conclude, the banks have granted GMS relief under its existing bank facilities in the form of (i) the rollover of certain loans, (ii) the waiver of applicable financial covenant tests and (iii) the deferral of the principal payments due thereunder, in each case from 31 March 2020 until 30 June 2020. For the purposes of this viability assessment, the Group believes that the loan documentation will be finalised by 30 June 2020 and that tight short-term liquidity can be managed as drafting of the documentation with lenders is already underway and is progressing according to the planned timetable. Accordingly the Directors have assessed the business plan against the new covenants.

The Group's forecasts have been stress tested against a number of severe but plausible scenarios that could potentially impact the Group's ability to deliver its operations and adhere to its banking covenants, including:

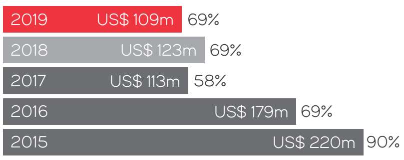
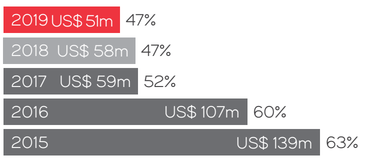
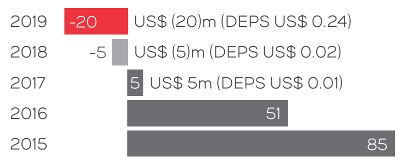
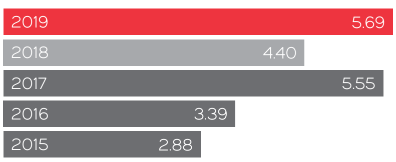
- a 14 percentage point reduction in utilisation in 2021 and 2022;
- a 15% reduction in day rates across all vessel classes; and
- a worst case scenario where adjusted EBITDA is sufficiently reduced to breach covenants.

In considering the impact of these stress test scenarios, the Board has reviewed realistic mitigating actions that could be taken to reduce or minimise the impact or occurrence of the underlying risks. These include cold stacking our vessels and cost reductions, and careful management of debtors and suppliers.

While the current unprecedented situation regarding COVID-19 and its impact on oil price remain uncertain, the Directors believe the potential impact is considered in the scenarios above. The Group has implemented a set of measures to prevent any major impact of COVID-19 and continues to monitor the situation for our people and our clients/suppliers. Brexit is not expected to have a significant effect on the Group's operations as 12 of 13 vessels are in the MENA region. For more information on Brexit impact, please refer to the consolidated financial statements on the page 121.

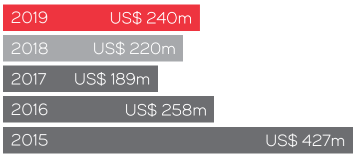
Whilst the principal risks all have the potential to affect future performance, none of them are considered likely either individually or collectively to threaten the viability of the business over the assessment period. Based on the results of this detailed assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years.

We monitor Key Performance Indicators, or KPIs, to monitor our performance against our strategic priorities. The KPIs comprise financial and operational measures and each links to the four pillars of our strategy.

KPI	Description	2019 Performance
Revenue and utilisation  % – SESV utilisation Bars – Revenue	Revenue reflects the cash received or receivable from clients, from operating activities during the year. It is driven mainly by charter day rates and utilisation levels. Utilisation is the percentage of days that vessels within the fleet of SESVs are chartered on a day rate out of total calendar days. It is the main revenue driver that GMS controls.	The decrease in revenue is mainly attributable to a reduction in average charter day rates, and utilisation mix. Utilisation based on calendar days in the year was stable at 69% (2018: 69%), E-Class vessels fell to 51% (2018: 73%), while S- and K-Class increased to 97% (2018: 78%) and to 68% (2018: 65%) respectively.
Adjusted EBITDA and Adjusted EBITDA margin  % – Adjusted EBITDA Margin Bars – Adjusted EBITDA	Adjusted EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation), excluding adjusting items (restructuring costs and non-cash impairments). It is a key measure of the underlying profitability of GMS's operations. Adjusted EBITDA margin demonstrates the Group's ability to convert revenue into profit.	Adjusted EBITDA reduced by 11%, driven by lower revenues driven, in turn, by a combination of rates and utilisation mix, offset by reduced costs. Adjusted EBITDA margins were flat at 47% reflecting lower revenues, offset by the impact of cost savings.
Adjusted net loss/profit and Adjusted DLPS/DEPS  DEPS – Adjusted DEPS Bars – Adjusted net profit	Adjusted net profit or loss measures the net profitability of the business excluding adjusting items (restructuring costs and non cash impairments). Net profit/loss for the year.	Adjusted net loss rose, reflecting lower revenues, offset by cost savings, and their impact on adjusted EBITDA. The increased net loss for the year reflects lower adjusted EBITDA, mentioned above, together with a non-cash impairment charge of US$ 59.1 million on two E-Class vessels (and two small non-core assets), and also a charge of US$ 6.3 million relating to restructuring costs.
Net debt to proforma EBITDA  * The figures shown for 2016 are based on the historic covenant levels of net debt to EBITDA and have not been restated using the Proforma EBITDA method (see definition in Glossary) now applicable.	Net debt to proforma EBITDA is the ratio of net debt at year end to earnings before interest, tax, depreciation and amortisation, excluding adjusting items (see Glossary for details), as reported under the terms of our bank facility agreement. Maintaining this covenant below levels set out in the GMS's lending facilities is necessary to avoid an Event of Default.	The net debt to proforma EBITDA ratio increased in 2019 primarily on account of a decrease in adjusted EBITDA (described above), partially offset by a decrease in net debt. The Group was in technical breach of its covenants at the 31 December 2019 testing date, for which a waiver has been received.

KPI	Description	2019 Performance

Backlog

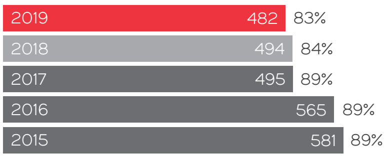


The backlog figures shown above are as at 1 April for the following year rather than 31 December of the year.

Backlog shows the total order book of contracts (comprising firm and option periods) at the relevant date. This is a leading indicator of future revenue and utilisation levels.

Backlog is broadly comparable with 2019.

Average FTE retention (Onshore and Offshore)



% – Staff Retention
Bars – Average FTEs

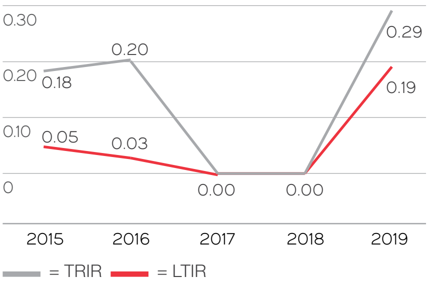
Employee retention shows the percentage of staff who continued to be employees in the year. The percentages shown do not take into account retirements or redundancies.

Average FTEs (Full Time Equivalent employees) throughout the year which provides an indication of the Group's service capacity, scale of operations, and manpower cost base.

The Group has maintained a relatively constant level of staff retention despite the significant amount of change in 2019.

Average FTEs over the year have reduced due to redundancies as part of the business restructuring. Total Group headcount decreased from 536 at 31 December 2018 to 457 at 31 December 2019.

TRIR and LTIR



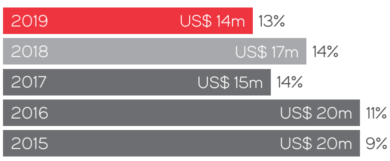
TRIR is the total recordable injury rate per 200,000 man hours, which provides a measure of the frequency of recordable injuries.

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 for a period of one or more days.

Offshore man hours are calculated based on a 12-hour working period per day.

The Group had three incidents therefore the TRIR and LTIR rose to 0.29 and 0.19 respectively, from zero in the previous two years. In absolute terms it remains at a low level.

G&A as percentage of revenue



G&A excludes depreciation and amortisation.
% – G&A to revenue
Bars – G&A

The sales to G&A expense ratio compares revenue to the amount of expenses incurred in onshore support operations.

The ratio fell by 1% to 12% compared to the previous year. Lower costs incurred more than offset a 12% fall in revenues.

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

Introduction

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

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

Against that, market demand in the Middle East has been relatively stable. There has therefore been an increase in utilisation across S-Class vessels to 97% (2018: 75%) and K-Class to 68% (2018: 64%), with five of the vessels now mobilised for long term[2] contracts.

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

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

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

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

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

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

Agreement has been reached in principle with lenders to restructure the Group's debt facilities. Negotiations have commenced on detailed loan documentation which are expected to be completed by the end of June 2020. Over that period, waivers have been received for both covenant and payment obligations under the existing agreements. Once complete, the new structure will re-establish access to our working capital facilities to support both short term cash flow and bonding requirements. It will also establish a loan repayment and financial covenant profile that is better suited to the current environment.

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

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

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

2 Between three and five years.

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

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

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

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

Revenue and segmental profit

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

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

* See Glossary.

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

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

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

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

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

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

Cost of sales, general and administrative expenses, restructuring costs

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

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

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

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

EBITDA[1] and Adjusted EBITDA

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

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

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

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

Finance costs and foreign exchange

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

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

Taxation

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

Earnings

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

Capital expenditure

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

Cash flow and liquidity

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

The net cash outflow from investing activities decreased in 2019 to US$ 9.4 million (2018: net outflow of US$ 23.0 million), primarily as a result of lower capital expenditure. This has driven a significant increase in net cash flow available to service debt[2] which at US$ 41.9 million is significantly higher than in the previous year (2018: US$ 5.9 million). This has enabled the business to service term debt and amortisation, with only minimal draw on its working capital facilities.

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

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

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

Balance sheet

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

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

1 EBITDA: Earnings Before Interest Tax Depreciation and Amortisation.
2 Defined as net cash flow from operating activities less cash used in investing activities.

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

Net bank debt and borrowings

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

On 31 March 2020, the Group's banking syndicate granted GMS relief under its existing bank facilities in the form of (i) the rollover of certain loans, (ii) the waiver of applicable financial covenant tests and (iii) the deferral of the principal payments due thereunder, in each case from 31 March 2020 until 30 June 2020. Until the Group is able to successfully amend and extend the terms of its banking facilities including financial covenants, all bank debt continues to be classified as a current liability.

Going Concern

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

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

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

COVID-19

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

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

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

Related party transactions

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

Steve Kersley
Chief Financial Officer
30 April 2020

CHAIRMAN'S INTRODUCTION

GMS has had a very active year improving the quality of corporate governance, as well as its business more generally. We have made good progress over the past year. Indeed, the greater integration of the governance structures with the Group more generally has been and will continue to be an important part of achieving our aim of protecting and generating value for our stakeholders.

Prior to the AGM in 2019, the actions necessary to bring the Company into compliance with the 2018 updates to the UK Corporate Governance Code (the 'Code') were yet to be undertaken. And yet, other than that in relation to the Chairman and Chief Executive roles temporarily being held by the same person (on which more later), by the time we closed the year under the new Board, GMS was compliant with all of the provisions of the Code. Importantly, the underlying change in culture, approach to governance, and the way that the Group is now managed has been fundamentally changed.

The significant governance developments during this period, include:

1. Following the developments of the Group over recent years, the previous Senior Independent Director, Simon Batey, led the search for a new Chairman with the assistance of Spencer Stuart, a leading executive recruitment firm. This led to my appointment as Chairman of the Board and Nomination Committee in April 2019. Whilst Simon and I had only a short opportunity to work together before he stepped down from the Board at the AGM in May 2019, I would like to thank him for his contribution to the Company.

2. The Company's AGM took place on 28 May 2019. At this meeting, shareholders rejected the advisory vote on the Company's remuneration report by a vote of 85%. This was a clear public indication that much work needed to be done in the area of governance. Further comment on the 2019 AGM is given in the Board report on page 41.

3. Following my appointment, both David Blewden and Mike Turner, each experienced Directors of other companies, were appointed to the GMS Board as Chairmen of our Audit and Risk and Remuneration Committees respectively at the beginning of June 2019. Mike Turner also took up the role of Senior Independent Director.

4. The Board at the same time engaged the services of an experienced UK based Company Secretary (such role previously having been held by the former CFO in the UAE).

5. Also in June, Steve Kersley was appointed to the Board as Chief Financial Officer. Although this position had not previously been a Board appointment in GMS, the new Board considered it essential to recruit the calibre of individual able to assist in the assessment and turnaround of the GMS business.

6. In August, Duncan Anderson, the CEO, stepped down from the Board, and I was appointed as Executive Chairman on an interim basis. A search for a new permanent CEO is underway, with timing as a practical matter likely to be linked to re-setting the capital structure of the Group.

7. In October, Shona Grant agreed to take on the role of Designated Non-Executive Director for Workforce Engagement ("Workforce Engagement Director") under the Code. This was an area where the Board believed much value could be added and Shona is able to bring her extensive relevant experience to this role. Further details of Shona's work are set out on page 11.

8. Also in October, we reconstituted the memberships of the standing Committees of the Board to bring them into full compliance with the Code.

9. In November, and following on from the rejection of the prior year's remuneration report by shareholders, Mike Turner in his roles both as Senior Independent Director and Chairman of the Remuneration Committee personally made contact with shareholders representing approximately 75% of the shares in issue, and key proxy advisors. He also arranged for briefings to the advisors of the Group's banks. Mike updated these stakeholders on governance matters generally and sought support for the Company's new Director's Remuneration Policy. Further details of this are given in the report of the Remuneration Committee on pages 50 to 73.

10. In December, we commenced an evaluation of the newly constituted Board, the results of which are set out on page 48.

This Corporate Governance Report, including the sections that follow, sets out how the Group has applied the main principles of governance contained in the Code. The Board considers that the Group complied with the relevant Code provisions that applied during the year except those provisions set out in the table on page 40 until the dates shown in that table. We will come into full compliance in due course with the one provision which remains outstanding on the appointment of a new permanent Chief Executive.

Tim Summers
Executive Chairman
30 April 2020

Governance calendar for 2019

The overall calendar of meetings of the Board and its Committees for 2019 is shown below.

Governance calendar for 2019

	Further information	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Board	Page 34	●		●		●	● ○		○	○ ○ ○ ○ ○ ○ ○	●		●
Audit and Risk Committee	Page 42	●		●			●			● ○ ○			●
Remuneration Committee	Page 50	●		●			●		○		●		●
Nomination Committee	Page 47					○			○		●		●
Annual General Meeting	Page 41					○							

● Principal meetings ○ Non-scheduled meetings

Meeting attendance by Directors in 2019

The attendance of the Directors at the meetings of the Board and its Committees during 2019 is shown below.

Director	Board meeting (scheduled meetings)	Board meeting (additional)	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Tim Summers[1]	● ● ● ●	● ● ● ● ● ● ● ● ●	○ ○ ○	○ ○ ○	● ◉[14] ● ●
Steve Kersley[2]	○ ● ● ●	● ● ● ● ● ● ● ● ●	○ ○ ○ ○ ○	○ ○	
Mo Bississo[3]	● ● ● ● ●	● ◉[10] ● ● ● ● ● ● ●	○ ● ● ● ● ○	○ ● ◉[12] ● ○	○ ◉[12] ● ●
David Blewden[4]	● ● ●	● ● ● ● ● ● ● ● ●	● ● ● ● ●	○ ○ ●	○ ○ ●
Dr Shona Grant	● ● ● ● ● ●	● ● ● ● ● ● ● ● ●	● ● ● ● ● ● ●	● ● ● ● ● ●	● ● ● ●
Mike Turner[5]	● ● ●	● ● ● ● ● ● ● ● ●	○ ○ ○ ●	● ● ● ●	● ● ●
Simon Heale[6]	● ●		○ ○	○ ○	
Duncan Anderson[7]	● ● ● ●	● ◉[11]		○ ○ ○	○
Simon Batey[8]	● ●		● ●	● ●	◉[13]
W. Richard Anderson[9]	● ●		● ●	● ●	

● Attended ○ Attended all or part of meeting as an invitee ◉ Apologies or recused

1 Tim Summers was appointed as Independent Non-Executive Chairman with effect from 1 April 2019 and was appointed Interim Executive Chairman with effect from 21 August 2019.
2 Steve Kersley was appointed as Chief Financial Officer with effect from 9 June 2019.
3 Mo Bississo was appointed as a Non-Executive Director with effect from 1 March 2019.
4 David Blewden was appointed as an Independent Non-Executive Director with effect from 1 June 2019.
5 Mike Turner was appointed as Senior Independent Non-Executive Director with effect from 1 June 2019.
6 Simon Heale, who was previously Chairman, stepped down from the Board with effect from 26 March 2019.
7 Duncan Anderson who was previously Chief Executive Officer, resigned with effect from 20 August 2019.
8 Simon Batey did not stand for re-election at the Annual General Meeting held on 28 May 2019.
9 W. Richard Anderson, who was previously an Independent Non-Executive Director resigned with effect from 29 April 2019.
10 Mo Bississo was prevented from attending as this meeting was arranged on short notice at a time when he was not available although he participated in a discussion of the matters of the meeting separately.
11 Duncan Anderson recused himself from this meeting as it related to matters in relation to him stepping down from the Board.
12 Mo Bississo was prevented from attending as this meeting was arranged on short notice at a time when he was not available although he participated in a discussion of the matters of the meeting separately.
13 Simon Batey recused himself from this meeting.
14 Tim Summers recused himself from the meeting as he had a potential interest in the discussions that took place which resulted in his appointment as Interim Executive Chairman.

Tim Summers
Executive Chairman

Appointed to the Board

1 April 2019 as Non-Executive Chairman and appointed Executive Chairman 21 August 2019

Relevant skills and experience

Tim Summers has over thirty years' experience in oil & gas, oilfield services and the manufacturing and engineering sectors. He has held a variety of Executive and Board roles with BP, TNK-BP, Renova AG, and Sulzer AG. He was Chairman of KCA-Deutag, Chairman of Swiss listed engineering firm Oerlikon AG, and Chairman of the privately-held oil & gas independent New Age Limited. He brings relevant experience to GMS, having successfully led businesses through phases of operational transition and financial restructuring, and is using his industry knowledge and leadership skills to work with the Board to implement the Company's repositioning plan. Tim has overseen significant changes to the composition of the GMS Board and Senior Management. Regular engagement with stakeholders is a priority; the insight he has gained from numerous meetings with major shareholders since he joined GMS has been invaluable.

Tim is a Chartered Engineer with a BSc (Hons) in Chemical Engineering from the University of Manchester. He is a Fellow of the Institute of Chemical Engineers and the Institute of Mining, Metallurgy and Minerals, and is a Member of the Society of Petroleum Engineers.

External appointments

None

☐ N

Steve Kersley
Chief Financial Officer

Appointed to the Board

9 June 2019

Relevant skills and experience

Steve Kersley joined GMS in June 2019. He brings energy sector experience gained in over 35 years in the industry. He was previously Chief Financial Officer (CFO) of Tervita Corporation, a Canadian oilfield services business. Prior to that he spent three years as CFO of Abu Dhabi National Energy Company PJSC (TAQA). In both companies he led the financial restructuring of highly indebted businesses. Before these roles, Steve spent 24 years with Royal Dutch Shell, 10 as a Vice President, working in Asia, Europe and the Middle East. Steve's sound knowledge of corporate finance, capital restructuring and strong industry experience, and, importantly, his understanding of the energy sector and banking in the Middle East, has equipped him with the right skills to understand and address the challenges facing the Company both financially and operationally.

Steve is a Member of the Institute of Chartered Accountants for England and Wales (ICAEW) and has a BA (Hons) degree in Law from Birmingham University.

External appointments

None

A N R

Mike Turner
Senior Independent Non-Executive Director

Appointed to the Board

1 June 2019

Relevant skills and experience

Mike Turner is the former Chief Executive Officer of the aerospace and defence company BAE Systems, after having spent over 40 years at the family of companies holding various roles including, but not limited to; Chief Operating Officer, Executive Chairman, and Managing Director & Chairman of British Aerospace Regional Aircraft. He is also former Chairman of GKN and Babcock International. At GKN, he also held the role of Senior Independent Non-Executive Director. In addition, he has sat on the boards of Barclays Bank PLC and Lazard Limited. Mike's strong track record in relevant industries, and comprehensive listed company experience, ensures he is a key contributor as the Company's Senior Independent Non-Executive Director. His strong strategic vision is invaluable as he works with the Board to reinforce the Company's governance and operational efficiency during a time of major transformational change within the business.

Mike joined Hawker Siddeley as an apprentice in 1966 and spent his whole career within the BAE Systems family. He has a BA (Hons) degree from Manchester Metropolitan, and honorary degrees from Manchester Metropolitan, Cranfield and Loughborough Universities.

External appointments

None

A N ☐ R

☐ Indicates Committee Chair **A** Member of the Audit and Risk Committee **N** Member of the Nomination Committee **R** Member of the Remuneration Committee

Dr Shona Grant
Independent
Non-Executive Director

22 October 2018

Dr Shona Grant's extensive career in the oil and gas industry includes 21 years with BP, where she held key roles in the areas of exploration, research and development and upstream operations. Shona also held non-executive positions with CapeOmega AS & CapeOmega Holding AS, and Norwegian Energy Company ASA. Shona's broad commercial and operational knowledge of the oil and gas sector and her strong non-executive board experience brings a high level of expertise to the GMS Board. Her comprehensive understanding of the Company's operations and markets enables her to contribute constructively across all three Board committees.

Shona holds a PhD in Geology from the University of Leicester.

Shona is currently the Chairman of qWave AS and also a Non-Executive Director on the Boards of Bluware Corporation, Hydrawell, and Canrig Drilling Technology (Norway). She is also a co-owner and Non-Executive Director at Wellwork Innovation AS and Khangela Consulting AS.

A N R

David Blewden
Independent
Non-Executive Director

June 2019

David Blewden is a Chartered Accountant who brings financial and operational experience from senior financial roles at a number of E&P and listed companies. He was the CFO of Sterling Resources Ltd, a TSX-V listed Canadian E&P company, and has held CFO positions at several start-up and private E&P companies. He was the Head of Corporate Finance at Yukos Oil Company, and was Non-Executive Chairman of Intelligent Energy Holdings plc, a UK fuel cell company. He also brings significant in-depth industry knowledge as he started his career as a petroleum engineer at Shell and, following that, held various investment banking roles focusing on the oil and gas sector. Joining the Board in June 2019, David brings a fresh perspective to the Board and Audit and Risk Committee which is invaluable during this time of change.

David has a BA and MA in Natural Sciences from the University of Cambridge and is a member of the ICAEW.

David is the CFO of Sunny Hill Energy Ltd, a UK private E&P company

A N R

Mo Bississo
Non-Executive Director

1 March 2019

Mo spent over six years at Gulf Capital, one of the leading investments firms, based in Abu Dhabi, UAE. He managed a number of portfolio companies, including Gulf Marine Services. In this role for the Company, he held an observer board seat, helped lead a series of refinancings, and was involved in listing the Company. His extensive knowledge of the UAE financial sector enhances the expertise of the Board.

Mo has a BSc in Computer Science from the University of California Irvine, and an MBA from Duke University.

Mo currently co-heads Kasamar Holdings, an Abu Dhabi based family office, that has a shareholding in GMS through Castro Investments Ltd, which he also co-heads. He is a member of the Boards of a number of privately owned companies in the UAE.

N

Dear Shareholders,

The Board's role is to promote the long-term success of the Company and to generate value for shareholders and other stakeholders on a sustainable basis over the long-term. 2019 was a pivotal year for GMS, with profound change in leadership, and the Board underwent significant change, with new members and refreshed governance. This has involved all Directors, both Executive and Non-Executive, becoming more engaged with the business.

Board Calendar for Main Meetings in 2019

At each main meeting

Review and discussion of:
- Health, safety and the environment
- Fleet performance and operational matters
- Discussions regarding the progress of negotiations with the Group's banks on resetting its capital structure and going concern.
- Competitive landscape and market
- Legal and corporate governance matters
- Investor relations and feedback
- Finance and accounting matters
- Human Resources
- Risk management and key risks facing the Group
- Trading and forecast updates.

Review of reports from Board Committees as relevant

At specific meetings

January	March	May	August	September	October	December
Succession planning. Discussions regarding shareholder relations.	Review and approval of the 2018 annual results and Annual Report, including impact of Brexit. Appointment of new Chairman.	Review of the membership of the Board's Committees and changes were approved. Appointment of new Chief Financial Officer. Appointment of new Non-Executive Directors.	Resignation of Chief Executive Officer. Appointment of Interim Executive Chairman.	Review and approval of half-year results.	Board Committees changes approved. Outline of key areas in relation to the 2020 business plan.	Discussion of budget and longer-term plans for the Group. Review of Enterprise Risk Management

The role of the Board and its Committees is summarised in the table below.

Board of Directors
Responsible for the effective oversight of the Company and management of the Group.

Audit and Risk Committee	Remuneration Committee	Nomination Committee
Monitors the integrity of the Group's financial statements, financial and regulatory compliance, and the systems of internal control and risk management. Reviews the effectiveness of the internal and external audit processes. See pages 42 to 46 for the Report of the Audit and Risk Committee.	Determines the reward strategy for the Executive Directors, Senior Management and Chairman to attract and retain appropriate individuals and to align their interests with those of shareholders. See pages 50 to 73 for the Report of the Remuneration Committee.	Considers and recommends appointments to the Board taking into account the appropriate skills, knowledge and experience to operate effectively and to determine the Group's strategy. See pages 47 to 49 for the Report of the Nomination Committee.

Executive Management

Board membership

The Board has reviewed the composition, qualifications, experience and balance of skills of the current Directors to ensure there is the right mix on the Board and its Committees, and that these 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 34 to 35.

Non-Executive Director independence

The Non-Executive Directors are a key source of expertise and contribute to the effectiveness of the Board. The Board considers and reviews the independence of each Non-Executive Director at least annually. In carrying out the review, consideration is given to factors such as their character, judgement, commitment and performance on the Board and relevant Committees and their ability to provide objective challenge to management.

Following the annual review for 2019, the Board concluded that each of the Non-Executive Directors demonstrate those qualities. They are all considered by the Board to be independent other than Mo Bississo due to him having been nominated to the role by one of our major shareholders. They all provide significant value in their roles.

Division of responsibilities

The Chairman encourages a culture of openness and debate both within the Board's proceedings and when engaging with management. Part of this has been the provision of improved management reporting and briefings to the Board as a whole and this has been embraced by management presenting directly to the Board when appropriate.

As a Board, we operate in a collegiate manner ensuring that each of the Directors is able to make an active contribution to the Board's decision-making. Whilst the roles of Chairman and Chief Executive Officer are currently held by one individual, we are satisfied that the robust debate within the Board ensures that there remains a division between the responsibilities of the Board and those of management. This is achieved through Non-Executive Directors devoting ample time to meet their Board responsibilities as well as providing constructive challenge and strategic guidance to both encourage and hold management to account.

The Board is assisted by an experienced UK based Company Secretary ensuring that the appropriate policies, processes, information, time and resources are provided for the Board to function efficiently and effectively.

How the Board operates

The roles of the Board and its Committees

The Board determines 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 controls. The Board's full responsibilities are set out in the matters reserved for the Board.

The Board is assisted in certain responsibilities by its Committees which 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 34 to 35 and their full terms of reference are available on the Company's website.

The Board processes

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

- The Chairman and the Company Secretary agree an overall calendar of subjects to be discussed by the Board during the year;
- Board meetings are scheduled 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 (any dissenting views are minuted accordingly);
- Main Board meetings generally take place at the Company's headquarters in Abu Dhabi with the Board visible and accessible to management and staff. During the COVID-19 outbreak, as a result of which travel restrictions are in place, the Board is continuing to meet regularly and will continue to do so by means of telephone and/or video conference arrangements to ensure that it is able to discharge its duties during this exceptional period;
- The development of Group strategy is led by the Chairman, with input, challenge, examination and ongoing testing and review by the Non-Executive Directors;
- 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 it where appropriate;
- The Board visits the Group's major business locations both to review its operations 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.

Director induction and training
The training needs of the Directors are reviewed as part of the annual evaluation of the Board. The Board and its Committees receive regular briefings on matters of importance including corporate governance developments.

Arrangements are in place for any newly appointed Directors to undertake an induction designed to develop their knowledge and understanding of the Company. The induction includes briefing sessions during regular Board meetings, visits to the Company's head office and vessels, modification and maintenance yard, meetings with members of the wider management team and discussions on relevant business issues.

Re-election of Directors
Following recommendations from the Nomination Committee, the Board considers that all Directors continue to be effective, have the required skills, knowledge and experience, are committed to their roles and have sufficient time available to perform their duties. In accordance with the provisions of the Code, all Directors are being proposed for re-election at the Company's 2020 Annual General Meeting ("AGM") as set out in the Notice of AGM being sent to shareholders.

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 a procedure is in place 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 the beginning of 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 its Committees in achieving their aims is the effectiveness with which they operate. The Board believes that these evaluations can provide a valuable opportunity to highlight recognised strengths and identify any areas for development.

2019 Board evaluation process
A summary of the evaluation undertaken by the Board is included in the Nomination Committee Report on page 48.

Engagement with shareholders and other stakeholders
The Chairman along with the Chief Financial Officer, is responsible for shareholder relations, ensuring that there is effective communication with shareholders on matters such as performance, governance and strategy.

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 half year and full year results with current and prospective institutional shareholders and analysts. Additional meetings are held in the intervening periods to keep existing and prospective investors updated on our latest performance.

In addition, during 2019 the Senior Independent Director was in contact with our largest shareholders representing approximately 75% of our share capital and with three of the major proxy advisors in the UK, on remuneration matters.

The Company's website provides stakeholders with comprehensive information on our business activities and financial developments, including copies of our presentations to analysts and regulatory news announcements.

Roles and responsibilities of Directors

Further details of the division of responsibilities are found in the table below.

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. Currently, these roles are held by the same individual.
- The Chairman is responsible for the leadership and effectiveness of the Board, chairing Board meetings, ensuring that agendas are appropriate and is responsible for ensuring that all Directors actively contribute to the determination of the Group's strategy.
- The Chairman is currently also 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 between the Board and management is ensured by key decisions being referred to the Board and Non-Executive Directors taking an active role in decision making between as well as at main Board meetings.
- The Senior Independent Director acts as a sounding board and confidante to the Chairman and is available to shareholders.
- The Non-Executive Directors are primarily responsible for constructively challenging all recommendations presented to the Board, where appropriate, based on their broad experience and individual expertise.

Summary of individual responsibilities

*Chairman

- Providing strategic insight from wide-ranging business experience and contacts built up over many years.
- Ensuring that the Board plays a full and constructive role in the determination and development of the Group's strategy.
- Meeting major shareholders as an alternate point of contact from the Chief Executive Officer.
- Providing a sounding Board for the Chief Executive Officer and other Senior Management on key business decisions, challenging proposals where appropriate.
- Agreeing with executive Directors subjects for particular consideration by the Board during the year at Board meetings, ensuring that adequate time is available to discuss all agenda items.
- Leading the Board in an ethical manner and promoting effective relations between the Non-Executive Directors and Senior Management.
- Building a well-balanced Board, considering Board composition and Board succession planning.
- Overseeing the annual Board evaluation process and acting on its results.
- Meeting with the Non-Executive Directors without the Executive management team present, at least annually.

*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 and other stakeholders such as its clients and 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 Group's KPIs and objectives.
- Leading the development of the Group's strategy with input from the rest of the Board.
- Working with the Chairman in agreeing subjects for particular consideration by the Board during the year.
- Providing strong and coherent leadership of the Company and effectively communicating the Company's culture, values and behaviours internally and externally.

* Currently the roles of Chairman and Chief Executive Officer are held by the same individual until such time as a new permanent Chief Executive Officer has been appointed. During this period, to ensure a delineation between the Board and Executive management can be maintained in the context of the Chairman's dual role, the Non-Executive Directors are holding private sessions led by the Senior Independent Director in the absence of the Chairman and Chief Financial Officer on the day of each main Board meeting. These sessions allow the Non-Executive Directors to discuss any matters they think may require further consideration outside the normal forum of the Board. Any such matters can then be discussed with and addressed by the Board as a whole. This process is working well in confirming that no significant issues are arising in the operation of the Board.

Senior Independent Director

- Acting as a sounding board for the Chairman.
- Available to shareholders (and contactable via the Company Secretary) if they have concerns on matters that cannot be addressed through normal channels.
- Ensuring a balanced understanding of major shareholder issues and concerns.
- Meeting with the other Non-Executive Directors without the Chairman present, at least annually, in order to help appraise the Chairman's performance.
- Serving as an intermediary for the other Directors and the Chairman if necessary.

Company Secretary

- Secretary to the Board and each of its Committees.
- Assisting in the administration of the Board and its Committees to ensure that Board papers are clear, accurate, timely, and of sufficient quality to enable the Board to discharge its duties effectively.
- Providing advice to the Board and each of its Committees regarding governance matters.

Compliance with the 2018 UK Corporate Governance Code ("the Code")

The table below shows the provisions of the Code with which the Group was not in compliance during 2019.

Code Provision		Period of non-compliance	Reasons for non-compliance
5.	A designated Director for engagement with the workforce.	Until 7 October 2019	Transition period following substantial Board changes.
9.	The roles of Chair and Chief Executive should not be exercised by the same individual.	From 21 August 2019	Pending recruitment of a new permanent Chief Executive Officer.
11.	At least half the Board, excluding the Chair, should be Non-Executive Directors whom the Board considers to be independent.	28 May 2019 – 1 June 2019	Period between former Directors stepping down at the 2019 Annual General Meeting and new Directors taking up office.
12.	The Board should appoint one of the Independent Non-Executive Directors to be the Senior Independent Director.	28 May 2019 – 1 June 2019	Period between former Senior Independent Director (SID) stepping down at the 2019 Annual General Meeting and new SID taking up office.
17.	A majority of members of the Nomination Committee should be Independent Non-Executive Directors.	28 May 2019 – 7 October 2019	Transition period following substantial Board changes.
24.	The Board should establish an Audit and Risk Committee of Independent Non-Executive Directors, with a minimum membership of three. Or in the case of smaller companies, two.	28 May 2019 – 7 October 2019	Transition period following substantial Board changes.
32.	The Board should establish a Remuneration Committee of Independent Non-Executive Directors with a minimum membership of three, or in the case of smaller companies, two.	28 May 2019 – 7 October 2019	Transition period following substantial Board changes.
36.	In normal circumstances, share awards should be subject to a total vesting and holding period of five years or more.	Until 15 November 2019	Previous LTIP grant had not incorporated these provisions.
	The Remuneration Committee should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares.	Until 6 November 2019	This was developed following changes to the Remuneration Committee membership.

Annual General Meeting (AGM) in 2020

Notice of the 2020 Annual General Meeting will be issued to shareholders and posted on the Company's website.

Updates on General Meetings in 2019

In accordance with the Code, we provide a final summary on the votes of 20% or more cast against resolutions at the General Meetings in 2019.

Requisitioned Meeting on 18 March 2019

Seafox and Ithmar Capital Partners Limited made proposals under Resolutions 3 and 4 for the appointment of new Directors. Although unsuccessful, shareholders who voted in favour of these resolutions wanted to see a change at Board level following disappointing financial performance. The Non-Executive Directors engaged with shareholders and following feedback four new appointments were made to the Board as shown below:

- Tim Summers, Chairman (1 April 2019) and Interim Executive Chairman (21 August 2019)
- Mike Turner CBE, Senior Independent Non-Executive Director (1 June 2019)
- David Blewden, Independent Non-Executive Director (1 June 2019)
- Steve Kersley, Chief Financial Officer (9 June 2019)

In addition, the following Directors stepped down from the Board as shown below.

- Simon Heale, former Independent Non-Executive Chairman (26 March 2019)
- W. Richard Anderson, former Independent Non-Executive Director (29 April 2019)
- Simon Batey, former Senior Independent Non-Executive Director (28 May 2019)
- Duncan Anderson, former Chief Executive Officer (20 August 2019)

AGM on 28 May 2019

In relation to Resolution 2 (to approve the 2018 Directors Remuneration Report) the Board and Remuneration Committee have consulted with the Company's largest shareholders representing approximately 75% of our share capital as well as three of the major proxy advisers. The feedback received was used by the Remuneration Committee in its development of Executive remuneration. Further information is given in the Report of the Remuneration Committee on pages 50 to 73.

In relation to Resolution 4 (the re-election of Duncan Anderson as a Director) during the year the Company has been in the process of a fundamental governance and management overhaul. This has taken account of feedback from investors.

In relation to Resolution 11 (to authorise the Directors to allot shares) and Resolution 12 (to authorise the Directors to allot shares on a non-pre-emptive basis) shareholders approved these resolutions by a substantial majority with 79% of the Company's shares voted were in support of these resolutions. These are routine authorities common amongst listed companies and the Company intends to continue to follow The Investment Association's share capital management guidelines.

Tim Summers
Chairman
30 April 2020

Dear Shareholders,

This is my first report as Chair of the Audit and Risk Committee ("the Committee") having taken over from Simon Batey, who departed the Committee in May 2019 after not standing for re-election to the Board. I am pleased to set out in this report an update on the main activities of the Committee in 2019 and up to the date of this report.

Membership

Echoing the change in the Board during the year, we have had several changes at the Committee level. As well as Simon Batey, Richard Anderson also departed the Committee after not standing for re-election to the Board. Mo Bississo and I joined Dr Grant as members from June, and in October Mo Bississo stood down and was replaced by Mike Turner. All of the Committee members are now Independent Non-Executive Directors and each brings a wide knowledge and significant business experience. Our combined experience enables us to fulfil our duties appropriately. More information about the experience of the Committee members in the biographies can be found on pages 34 to 35.

As part of my transition into the Board and Committee, I have spent time with management reviewing the significant areas of judgement and internally reported information, reviewed previous Committee packs and minutes and have held discussions with the external auditor. I have also visited the Head Office in Abu Dhabi on several occasions in 2019.

Meetings

The Committee has played an important governance role and supported the Board in fulfilling its oversight responsibilities relating to financial reporting, internal control and risk management. The Committee met five times during 2019 with an agenda linked to events in the Company's financial calendar and other important events which fall under the remit of the Committee for consideration. The Committee regularly reports to the Board on how it has discharged its responsibilities. The Company Secretary acts as Secretary to the Committee.

The Terms of Reference, which are available on the Company's website, include all the matters required under the Code and are reviewed annually by the Committee.

The Committee receives reports from external advisers and from the Senior Management team as required, to enable it to discharge its duties and to be given a deeper level of insight on certain business matters. The Chief Financial Officer and senior members of the finance team routinely attend meetings and the Chairman of the Board sometimes attends the meetings as an invitee. The internal and external auditor attend and present at meetings when required. The external auditor receives copies of all relevant Committee papers (including papers that were considered at meetings when they were not in attendance) and minutes of all Committee meetings.

Main activities

Over the course of 2019, the Committee's work focused on the following areas: financial reporting, internal control and risk management, internal audit and external audit. The following sections provide more detail on our specific items of focus under each of these headings, explaining the work we, as a Committee, have undertaken and the results of that work.

A) Financial reporting

Our principal responsibilities in this area enable us to provide advice to the Board on whether the Annual Report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Significant issues

The 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 matters shown below as significant issues in 2019 and up to the date of the report. These include certain issues that are, or have the potential to be, material to the Group's results for the year and closing balance sheet position. The Committee was satisfied that the judgements made by management were reasonable and that appropriate disclosures have been included in the financial statements.

The ultimate responsibility for reviewing and approving the Annual Reports 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.

Recurring items

Area of focus and issue	How addressed and conclusion
Going concern IAS 1 requires management to make an assessment of an entity's ability to continue as a going concern. If management has significant concerns about the entity's ability to continue as a going concern, the uncertainties must be disclosed.	The Group has been in negotiation with lenders on a longer-term solution to its capital structure for the last twelve months. On 31 March 2020, a non-binding term sheet was agreed with the lender syndicate to restructure the existing debt facilities, including access to new working capital and bonding facilities, underpinning liquidity. The term sheet also covers the restructuring of repayment profiles, term, and covenant levels. All banks agreed to work to complete the necessary loan documentation by 30 June 2020. Drafting of such documentation with lenders is already underway, and based on progress to date, Management currently expects to have the new facilities fully in place by the end of June 2020. In addition the Group's short-term liquidity position is currently tight. This will continue to require careful management until such time as the Group's banking facilities are restructured. The application of the going concern basis for the preparation of the consolidated financial statements required careful judgement. Discussions were held with the external auditor regarding the level of disclosures on the material uncertainty arising from the need to complete binding loan documentation in respect of the Group's restructured banking facilities and the Group's tight short-term liquidity position. Notwithstanding this material uncertainty, the Directors believe that based on the progress made to date in this regard, there is good reason to believe that final loan documentation will be completed in a timely fashion; and that the Group's working capital and liquidity position can be managed. Accordingly, they have adopted the going concern basis of accounting in preparing the consolidated financial statements. The impact of COVID-19 and the low oil price environment has been fully considered in making this judgement. Refer to Note 3 of the consolidated financial statements for the full disclosures.
Long term viability statement In accordance with provision 31 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a three-year period to December 2022.	The period under review is three years, consistent with previous assessments. This period was selected with reference to the current backlog and business development pipeline, both of which offer limited visibility beyond three years, particularly in light of current macro-economic volatility. A three-year period is also aligned with industry peers. The Group's forecasts have been stress tested against a number of severe but plausible scenarios that could potentially impact the Group's ability to deliver its operations and adhere to its banking covenants, including: – a 14 percentage point reduction in utilisation in 2021 and 2022 – a 15% reduction in day rates across all vessel classes – a worst case scenario where EBITDA is sufficiently reduced to breach covenants While the current unprecedented situation regarding COVID-19 and its impact on oil price remain uncertain, the Directors believe the potential impact is considered in the scenarios above. This was also discussed with the external auditor and the statement drafted accordingly.
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. Expected utilisation levels, day rates, current backlog and the Group's weighted average cost of capital may also impact the value in use of vessels. Impairment assessments are judgemental 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. Discussions were held with the external auditor and the Committee evaluated the audit testing procedures that had been conducted. The Committee was satisfied with management's approach and agreed with the conclusion to impair the Evolution and Endeavour vessels, the non-core vessel Naashi and the S-class cantilever included in assets under construction. Total impairment recognised is US$ 59.1 million.

Current year items

Area of focus and issue	How addressed and conclusion
New accounting Standards The introduction of new accounting standards has required changes in accounting policy, treatment and disclosures. Refer to Note 2 of the consolidated financial statements for more details.	The main change to the consolidated financial statements was the adoption of IFRS 16. The Committee first considered this during 2018 when detailed reporting on the matter was provided by the Chief Financial Officer, covering both the impact and disclosures. The Committee also considered the disclosures in the 2018 Annual Report. The conclusion, impact and disclosures were signed off by the external auditor as part of their 2018 audit and 2019 interim review. In 2019 management reassessed the list of leases and identified further qualifying assets under IFRS 16. These were certain operating equipment and communications hardware. Discussions were held with the external auditor and the Committee evaluated the judgements documented by Management. The Committee agrees with the assessment of the adoption of IFRS 16 and the associated disclosures.
Restructuring costs Restructuring costs in 2019 are a new classification within the consolidated statement of profit or loss and are treated as an adjusting item to EBITDA. Refer to Note 34 of the consolidated financial statements for more details.	The Committee were provided with a paper from Management summarising the nature of the restructuring costs and why they are considered to be non-routine. The amounts were also audited by the external auditor. The Committee supports the presentation of the amounts of US$ 6.3 million in the consolidated financial statements.
Drydocking Following a review of the dry docking policy, Management considered if a change in accounting estimate requiring prospective application was required to be made during the year ended 31 December 2019, to better reflect the directly related drydocking expenditure.	The Committee was provided with a detailed paper from management covering the current policy on drydocking alongside IAS 16 and treatment of drydocking expenditure in comparative companies. The matter was also raised by the external auditor in their review. The Committee is satisfied that the change in accounting estimate relating to drydocking is appropriate – with an additional US$ 2.8 million capitalised.
Corporate Code compliance The UK Corporate Governance Code ("the Code") updated in July 2018 to reflect the requirements of section 172 of the Companies Act effective for accounting periods on or after 1 January 2019. The new Code has required changes in practices and additional disclosures.	The Committee has monitored progress against identified changes to be implemented (refer to the Introduction on pages 32 and 40 for further details). The Committee is satisfied that the comply or explain requirements of the Code have been met within this Annual Report.
Brexit Continuing uncertainty surrounding negotiations on the UK's exit from the European Union ("Brexit") results in increased uncertainty over future policy, and legislation in the United Kingdom, which could impact Group operations.	The Committee received a summary paper from management considering the potential impact on trade arrangements following Brexit. The risks relating to Brexit are included in the overall risk register of the Group and so have been considered as part of risk assessment procedures. The Committee is satisfied that Brexit continues to be appropriately considered by management.

B) Internal control 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. 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.

During the year, the Board carried out a robust assessment of the principal and emerging risks facing the Company (see pages 20 to 25). The Committee assists the Board in fulfilling its responsibilities relating to the adequacy and effectiveness of the control environment and risk identification and management through regular reviews of the risk heatmap and associated controls. Following the Committee's review and recommendation, the Board agreed that GMS' system of internal control (including risk management) continues to be effective.

The Committee has also been delegated the responsibility for reviewing the effectiveness of the Company's financial reporting process, which is principally assessed in relation to the timely identification and resolution of areas of accounting judgement, the quality and timeliness of papers analysing those judgements.

C) Internal audit

KPMG performs an internal audit role. The development of the 2019 plan was based on an assessment of the Group's risks, and approved during the 2018 Committee cycle. During 2019 audits were carried out in the following areas: Saudi Arabia operations and the Group Finance Procedure Manual. In addition, there were follow up audits on UK Operations and HR/Crewing. The Committee received reports on internal controls which 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.

In addition to the internal audit function, the Group is regularly audited by certain clients and industry bodies, with any significant findings reported to the Committee who assess these findings and ensure that appropriate action is taken by management as deemed necessary. During the year there were no significant findings to report to the Committee.

D) External audit

Appointment and independence

The Committee considers formally the re-appointment of the external auditor each year, as well as assessing their independence on an ongoing basis. Deloitte LLP ("Deloitte") have been appointed as external auditor since 2014 and the audit has not been put out to tender since that date. During the financial year, the Company has complied with the mandatory audit processes and the Committee has complied with the provisions set out in the Competition and Markets Statutory Audit Services Order 2014.

In accordance with UK regulations and to help ensure independence, our external auditor adheres to a rotation policy based on the FRC's Ethical standard that requires the Group audit partner to rotate every five years. As discussed in the 2017 Annual Report, the previous lead audit partner had completed his rotation cycle following the completion of the 2017 audit. Accordingly, the new Audit Partner Graham Hollis was introduced and has taken over as the role since 2018.

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 external auditor and the process they have adopted to identify financial statement risks.
- A review of the Audit Quality Inspection (AQI) Report on our external auditor 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 80 to 88.
- Regular communications through formal papers submitted and presentations by the external auditor to the Committee.
- Discussions within Committee meetings with senior members of the finance team without the external auditor present, at least annually, in order to appraise the work of the external auditor.
- A review of the independence of the external auditor.

As part of the Committee's assessment of the objectivity and independence of the external auditor, the Committee met privately with the external auditor without management being present and received confirmation of their compliance with auditor independence requirements. In addition, I met privately with the external audit Engagement Partner on several occasions.

The Committee has determined that Deloitte was effective in providing its services to the Group. A resolution to re-appoint Deloitte as the Company's Auditor will be put to shareholders at the forthcoming AGM.

Provision of non-audit services

To ensure the continued objectivity and independence of the external auditor are not compromised, 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.

Total 2019 audit fees were US$ 371,838 (2018: US$ 316,000). The total non-audit services provided by the Group's external auditor Deloitte for the year ended 31 December 2019 were US$ 320,000 (2018: US$ 103,000) which comprised 46% (2018: 25%) of total audit and non-audit fees. The most significant non-audit fee was US$ 320,000 (2018: US$ 103,000) in relation to the interim review. The Committee is satisfied that the quantum and nature of the non-audit services provided by Deloitte during the current year are such that the objectivity and independence of the external auditor have been safe guarded. Further details of the remuneration paid to the Group's external auditor in respect of both audit and non-audit work is provided in Note 37 to the financial statements.

Audit and Risk Committee effectiveness review

The effectiveness of the Audit and Risk Committee was reviewed as part of the Board evaluation commented on page 48.

Ethical conduct and compliance

Our Whistleblowing Policy encourages all employees to report any potential improprieties in relation to any aspect of the Group's activities. The Group operates a confidential, externally-managed whistleblowing hotline and all reports received are communicated to this Committee. To date no cases have been reported. The Committee is satisfied that arrangements are in place for the proportionate and independent investigation of possible improprieties and for appropriate follow-up action. 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 has in place a comprehensive set of Anti-Corruption and Bribery policies and is satisfied that appropriate policies and training are in place to ensure compliance with applicable law and to uphold the Group's high standards of ethical business behaviour.

David Blewden
Audit and Risk Committee Chairman
30 April 2020

REPORT OF THE NOMINATION COMMITTEE

Dear Shareholders,

I am pleased to present the report of the Nomination Committee, which details the work we have completed over the course of the year. The Committee met four times during the year, following my appointment as Chairman. Prior to my appointment, the Committee's then members also met informally in connection with the recruitment process for the replacement of the former Chairman which involved consideration of a number of candidates selected with the assistance of Spencer Stuart, a leading executive recruitment firm.

The primary role of the Committee is to promote effective succession planning for the Board and Senior Management and align the Board composition with the Group's culture, values and strategy. As part of this role we ensure the Board and its Committees have the right balance of skills, experience, diversity, independence and knowledge to effectively discharge their duties.

Membership

The Nomination Committee comprises of three Independent Non-Executive Directors, Shona Grant, Mike Turner and David Blewden, one non-independent Non-Executive Director, Mo Bississo and myself (Tim Summers) as Chairman of the Committee.

This composition is in compliance with the Corporate Governance Code which provides that Independent Non-Executive Directors should comprise the majority of the Committee.

Key responsibilities

The Nomination Committee's responsibilities include:

- regularly reviewing the composition, structure and size of the Board and its Committees;
- evaluating the balance of skills, knowledge, experience, personal attributes and diversity on the Board of Directors;
- reviewing succession planning for the Board and Senior Management; and
- leading the process for Board appointments and making recommendations to the Board in respect of new appointments.

Board changes

During 2019, the Committee oversaw significant changes to the Board. This is in line with the Company's fundamental governance and management overhaul with the replacement of the Chairman, Chief Financial Officer and a number of Non-Executive Directors.

In 2019, Simon Heale (former Independent Non-Executive Chairman), Duncan Anderson (former Chief Executive Officer) and W. Richard Anderson (former Independent Non-Executive Director) stepped down from the Board. In addition, Simon Batey did not stand for re-election at the 2019 Annual General Meeting.

As noted in last year's Annual Report, Dr Shona Grant was appointed Independent Non-Executive Director in October 2018 and we also welcomed Mo Bississo to the Board as a Non-Executive Director in March 2019.

Following a formal and transparent recruitment process, I joined the Board in April 2019 as Chairman. In August, at the request of the Board following the recommendation of the other members of the Nomination Committee, I agreed to take on the role of Interim Executive Chairman. In June 2019, Steve Kersley joined the Board as Chief Financial Officer and David Blewden and Mike Turner commenced their roles as Independent Non-Executive Directors. On his appointment, Mike Turner also took on the additional role of Senior Independent Director. The recent appointments referred to above benefit the effectiveness of the Board greatly as each individual brings with them a wealth of skills, knowledge and experience which together enable the Board to provide appropriate leadership to the Company. Further details of the Directors are included in their biographies on pages 34 to 35.

In line with the recommendations of the Code, the recent appointments to the Board were undertaken with the assistance of Spencer Stuart, a leading external recruitment firm. This firm has no other connection with the Company or any of the individual directors.

Workforce engagement

During the year, the Committee discussed and considered the requirements of the new 2018 UK Corporate Governance Code in relation to proposals for workforce engagement. After taking into account the size and structure of the Company, the Committee and the Board agreed that the most effective way of ensuring engagement with the workforce would be to entrust responsibility for workforce engagement to an Independent Non-Executive Director. Dr Shona Grant was appointed to this role in light of her extensive experience in this area during her career. With input from Dr Grant, an employee survey was carried out and its results reported to the Board. In addition, Dr Grant has met with onshore and offshore staff. Further comment on this area is included on page 11.

Board and Committee evaluation

In 2019, an internally facilitated evaluation of the Board, its Committees, individual Directors and the Interim Executive Chairman was conducted. The evaluation followed the process set out below:

Questionnaire

Each of the Directors and the Company Secretary completed a questionnaire on a confidential basis. The questionnaire was structured to provide Directors with an opportunity to express their views on a range of matters including:

- Strategy and risk;
- Succession planning and talent development;
- Board dynamics and operation;
- Interim Non-Executive Chairman's effectiveness;
- Effectiveness of the Board and each of its Committees;
- Director self-assessment and training needs; and
- Any other general observations.

Results

The results of the 2019 Board evaluation questionnaire were collectively discussed by the Board. As a result of the findings, the Board 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.

The Board concluded that in the short term, it should continue to focus on the turnaround of the Group's business and resolution of the capital structure of the Company whilst planning for the future strategy and management of the Group in the longer term.

Chairman review

The performance of the Chairman was evaluated by the other Non-Executive Directors. The evaluation, led by the Senior Independent 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 Directors can be found on pages 34 to 35. All of the Company's Directors will stand for re-election at the 2020 Annual General Meeting. The terms and conditions of appointment of the Directors, are available for inspection at the Company's registered office and at the venue of the Company's Annual General Meeting during that meeting.

Diversity

The Company is committed to a culture that promotes diversity, including gender diversity, and to achieving a working environment which provides equality of opportunity. The Board continues to be diverse in terms of nationalities, international experience and gender of its members. The Board has a broad range of experience and expertise covering 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. It has commenced further development of this whilst continuing to ensure future recruitment continues to be of the best candidates for the role. The People and Values section on pages 6 to 10 provides further information on the Group's workforce.

Succession planning

The Committee has reviewed succession planning for Senior Management across the Group to enable, encourage and facilitate the development of individuals, including internal career progression opportunities as they arise. As a practical matter, given the size of the Company, the Committee recognises that many senior posts are likely to be sourced from external hires.

I am currently acting as interim Executive Chairman of the Company. In order to achieve full compliance with the Code, the Nomination Committee is actively considering the appointment of a permanent Chief Executive Officer at the appropriate time and has engaged the services of Spencer Stuart to assist in this recruitment. The other members of the Nomination Committee and Board have requested that I continue in the interim Executive Chairman position during the Company's current period of transition following which a permanent Chief Executive Officer is expected to be appointed.

In the longer term, consideration will be given to future Board appointments, whilst recognising that the current Directors have all been appointed to the Board relatively recently.

Selection Process for key Board appointments

Select suitable recruitment consultants
External executive search consultants are chosen to assist.

Candidate specification
A specification for candidates is prepared identifying the desired key skills, qualifications and character profile being sought taking into account the current membership and dynamics of the Board.

Consider potential candidates
A range of candidates meeting the specification is identified from a diverse range of backgrounds.

Interviews and selection
The Nomination Committee selects a shortlist of candidates for interview.

Recommendations and confirmation of appointment
The Nomination Committee considers and discusses the shortlisted candidates and recommends the preferred candidates to the Board.

Candidates meet with other Directors on the Board as appropriate prior to Board approval for the appointment to be made.

Tim Summers
Nomination Committee Chairman
30 April 2020

Dear Shareholders,

As in many other aspects of governance, it has been a busy year for the members of the Remuneration Committee (the "Committee"). In this report, we set out key areas of activity, along with the rationale for actions taken, as well as the results.

The specific circumstances of GMS during 2019 necessarily demanded particular approaches to remuneration. We sought to find the right solutions for the challenges that the Company is facing, within the overall framework of good governance. This has not always been straightforward, and I am grateful to the shareholders with whom we were in touch during the year, and indeed our creditors, for the support they have shown as we developed our thinking during 2019 as set out in this report.

Firstly, though, I report on more recent developments in 2020 – our response to the economic effects of the COVID-19 pandemic in terms of adjustments in remuneration. For clarity, other parts of this report are based on the remuneration arrangements in place at the start of the year (without having taken account of these later adjustments).

(a) Response to COVID-19 Pandemic

As reported upon in the Strategic Report, the Group has taken action and has plans in place to manage the economic effects of the COVID-19 pandemic on its business. These actions have included onshore staff moving to home working and reducing staff costs in line with the reductions in activity required by the business. Our executive Directors have of course been part of this effort albeit their roles and responsibilities remain unchanged. In line with other onshore staff, the salaries of executive Directors and Non-Executive Directors have been reduced by 25% with effect from 16 April. In addition, Tim Summers has taken a further reduction of his salary (including non-executive fees) of 15% so that his overall base salary is reduced by 40% in total. These reductions will remain in place until normal working is resumed. Calculation of any STIP payable for 2020 performance will be based on the amounts of salary actually earned in the year (i.e. the reduced amount).

In addition, payment of all STIP for 2019 has been deferred. These will only be paid when the financial position of the Company makes it appropriate to do so, on the recommendation of the Remuneration Committee.

(b) Remuneration at last year's Annual General Meeting

At the Company's Annual General Meeting in May 2019, 85.5% of the votes cast on the Remuneration Report were against the resolution with only 14.5% in favour. Whilst this vote predates my own appointment to the Board I, along with the rest of the new Committee (David Blewden and Shona Grant), have carefully reviewed the input from shareholders and proxy advisors received.

The main reasons for the rejection of the 2018 Remuneration Report included:

- The 2018 bonus outcome of 50% of the maximum entitlement for the former Chief Executive Officer was not considered appropriate in the context of the very significant decline in the Company's performance; and
- Poor disclosure of the achievement of the strategic targets under the STIP framework which determined 40% of the overall award and paid out at 75% of the maximum under that element.

The newly constituted Committee fully recognises the need for remuneration structures to clearly and demonstrably reflect Group performance and be aligned with shareholders' interests. Our review of the compensation and reward structures in GMS is guided by these principles.

In this context, we undertook a review of remuneration policy to address these and other matters.

(c) Updates to remuneration in 2019

As first steps in our remuneration review:

The Committee overhauled the Short Term Incentive Plan ("STIP"). This is now based around clear and challenging financial targets which, for 2019, are set out on page 66. Ultimately, the STIP out-turn of the year was 51.59% of target, where target for challenging performance is 100% of base salary. In the context of his appointment, service and performance during the year, the Committee did not apply any discretion (negative or positive) to the STIP outturn of the CFO. In the case of the former CEO, the Committee recommended to the Board a downward revision, with the result that zero STIP was awarded. This downward revision, in line with current policy, was arrived at after careful deliberation over the performance of the Group under his leadership.

(1) Salaries within the Senior Management team were kept unchanged, in line with a policy across the wider group, and with a significant number of senior roles eliminated from the organisation in the second half of the year.

(2) LTIP awards were granted subject to the performance condition of Relative Total Shareholder Return compared against two groups:

(a) As to the first 50% of the total award, the FTSE 250 excluding financial services; and
(b) As to the second 50% of the total award, a group of comparator companies.

(3) In addition, and as detailed further in the proposed policy (and subject to shareholder approval), given the specific nature of the short-term strategic imperatives of the Group, the CFO in 2019 (his year of appointment) is eligible for an additional special bonus (referred to as the "Special Additional CFO Bonus") based on the following targets:

(a) amend and extend refinancing agreement with the Group's banks; and
(b) successful completion of a new capital structure for the Group;
each:
(i) accounting for up to 15% of base salary,
(ii) with the extent of achievement assessed by the Remuneration Committee (which will retain the ability to apply an overriding general discretion) and measured over a period spanning up to 31 December 2020 as well as part of 2019 (given that achievement of these targets is dependent on agreements with the Group's banks which the Committee recognised could take some time),
(iii) with Committee discretion to satisfy some or all of any amount earned in deferred bonus shares (which the Committee currently intends to do for at least half the award) subject to and after approval of a new Deferred Bonus plan by shareholders.

This Special Additional CFO Bonus is a separate, additional and one-off bonus opportunity distinct from the STIP. Additionally, the Executive Chairman had a special bonus opportunity for 2019 as described further below.

(d) Consultation with shareholders

As part of the process of listening and responding to the views of shareholders and finalising the remuneration for the coming year, the Committee consulted with the Company's ten largest shareholders representing approximately 75% of the Company's share capital together with the three main proxy advisors. All shareholders who responded directly in the consultation were supportive of the proposals. Some suggestions were received from the proxy advisors and, except in so far as impractical or inadvisable in the specific circumstances of the Group to do so, these have been taken into account in the final proposals.

(e) Updates to the Directors' Remuneration Policy this year

Due to the vote on the Remuneration Report at the 2019 Annual General Meeting, we are required to put the Directors' Remuneration Policy to a vote at the 2020 Annual General Meeting. Reflecting input from shareholders and good practice more generally, the following updates are proposed to the Directors' Remuneration Policy:

(1) Inclusion of discretion to override formulaic outcomes for incentive arrangements;

(2) Introduction of a mandatory two-year deferral into share awards of any annual STIP (for 2020 and subsequent years) in excess of 100% of base salary (and such additional amounts as the Committee may determine), subject to approval of a new deferred STIP plan to be proposed to shareholders at the forthcoming AGM;

(3) Extension of malus and clawback provisions to Long-Term Incentive Plan ("LTIP") grants made in and to be made after November 2019 to include serious misconduct, reputational harm and corporate failure, in addition to any material misstatement of the Group's financial results or an error in the calculation of performance targets. Similar malus provisions will apply to Deferred Bonus awards;

(4) Reduction of the LTIP threshold vesting from 30% to 25%;

(5) Introduction of a two-year post-vesting holding period for LTIP awards granted in 2019 and going forward (vesting will continue to take place only after completion of the three year performance period subject to the Rules of the LTIP);

(6) Increase in share ownership requirements for all Executive Directors to 200% of base salary to better align them with shareholder experience;

(7) Introduction of a post cessation shareholding policy requiring Executive Directors ceasing in their role to retain their then shareholding, up to their minimum in-service requirement in the first year and 50% of that in the second year (subject to the discretion of the Committee to vary the level or length of these requirements if it considers that to be appropriate in the circumstances at the time); and

(8) The Special Additional CFO Bonus and the Executive Chairman Share Award discussed below.

We also consulted on maintaining the maximum STIP at 150% of base salary though increasing flexibility through the removal of the distinction between “normal” (100%) and “exceptional” (150%). This would allow continuation of the structure that had been adopted by the Company for 2019, which set maximum bonus opportunity at 120% of base salary (ignoring the Special Additional CFO Bonus). Whilst all shareholders who responded directly in our consultation indicated support for the proposal, some proxy advisors questioned the increase to 150%. We have therefore held the normal maximum to 120% of salary (for strong performance at the uppermost level) to allow the current structure under which management operates to be maintained, while being clear the new Committee normally will not consider paying more than this amount even for particularly exceptional performance. The Committee will only consider utilising the higher maximum STIP potential up to 150% of base salary in exceptional circumstances. In line with the results of the consultation, we are also confirming that targets (for a minority of the total of the potential STIP) can straddle more than one financial year where considered justified (as we are proposing for the targets set for the Special Additional CFO Bonus).

The Committee does not intend to increase the remuneration of any Director until after the Group’s capital structure has been resolved. This is consistent with the treatment of the workforce more generally. Both the Chairman and the CFO were appointed during 2019 and their remuneration was set at levels appropriate taking account of the specific roles they were to undertake in the context of the particular requirements of the Group, and market data for other comparable companies and roles.

(f) LTIP share awards

The Company’s LTIP currently restricts total dilutive share awards granted under the LTIP and any other executive share plans in a ten-year period (excluding any that have lapsed) to 5% of the Company’s issued share capital. In the context of the current share price, averaged over 10 years, this would give the Committee capacity to grant annual share awards with a total face value of less than £120,000 based on the share price at the date of this report. As we seek to drive the business forward, this is insufficient to motivate, incentivise and retain key people in the Group.

We are accordingly proposing an increase in the ‘ten-year’ limit under the LTIP or 10% of the share capital. This would cover all share awards to be satisfied by the issue of new shares within the Company over any ten-year period for any other executive share plan. This is in line with the Investment Association’s overall guidance for share plans. Whilst this would mean that total share awards can exceed 5% in a ten-year period, such awards under the LTIP are awarded not simply to executives, but widely across our land-based employees for whom (due to their international location) typical all-employee plans are not best suited, and to whom the LTIP is the only share scheme available. The Committee intends that this wide distribution of awards will continue in the future.

Proposals for amendment to the LTIP rules to effect this change will be brought to the forthcoming AGM.

(g) Executive Chairman

At the request of the Board, Tim Summers agreed to take on the role of Executive Chairman on the departure of the Chief Executive. The rest of the Board and I are hugely grateful to Tim for doing so.

As well as his clear commitment to the Company, Tim has undertaken a considerable personal commitment as well. Previously having been based in the United Kingdom, Tim has stepped down from his other main business commitment and now resides in the Middle East based in Abu Dhabi and visiting customers, elsewhere in the region as well as in the United Arab Emirates. His approach is both highly strategic and deliberately hands-on. This is driving the business forward in a way that I believe has never been done before. It is also saving substantial costs through the elimination of unnecessary Senior Management positions and the restructuring of the business without the expense of engagement of external management consultants which might otherwise be required.

Given the current circumstances of the Company and the difficulties in recruiting a suitable Chief Executive on a permanent basis until matters are better set for the future, Tim’s appointment has continued into this year and is now expected to continue further into the year.

In this context, and in line with the input received from shareholders, the Committee determined the following remuneration structure at the time of Tim’s appointment as Executive Chairman:

(1) Executive uplift base salary set at £300,000 per annum (pro rata for the period of appointment and in addition to the flat fee of £200,000 per annum as Non-Executive Chairman). Following that appointment, Tim has had to relocate to the UAE where labour law requires that he be paid in AED. Accordingly such amounts were converted to AED 1,426,024 and AED 950,683 totalling AED 2,376,708 per annum for the period of his appointment as Executive Chairman. The Executive uplift base salary is 6% lower than the salary of the former Chief Executive for the permanent CEO role;

(2) A special bonus opportunity (the "Executive Chairman Special Bonus") of up to AED 681,323. This is 11% lower than the maximum annual STIP potential of 150% of base salary for a CEO under the current Directors' Remuneration Policy. Payment of this bonus, no part of which was guaranteed, was to be based on targets for the following measures:

(a) Operating expense reduction (for 30% of the total potential);

(b) General and administrative expenses reduction (for 15% of the total potential);

(c) Generation of new business/contracts (for 40% of the total potential);

(d) Organisation change (for 7.5% of the total potential); and

(e) Cultural change (for 7.5% of the total potential);

in each case over the term of the interim assignment and subject to the discretion of the Committee to defer 50% or more of any amount ultimately becoming payable into share awards (under a Deferred Bonus plan to be proposed to shareholders at the forthcoming AGM).

It was initially intended that the Executive Chairman Special bonus would reward performance spanning both 2019 and 2020. After we entered 2020, it became clear that the role of Executive Chairman would continue for significantly longer than had been anticipated when the Executive Chairman Special Bonus was put in place. Accordingly the Remuneration Committee determined that in 2020 the Executive Chairman should instead participate in the STIP on the same terms as other Management team members subject to any payments under this being based on his uplift only (not the part of his remuneration relating to his non-executive Chairman fees).

Accordingly, it became appropriate to end the Executive Chairman Special Bonus early and measure achievement of targets as at 31 December 2019. Details of both the targets and the outurns against these are shown on page 66. Rather than adjusting the financial targets pro rata to 31 December (on which basis the targets would all have been achieved in full), the Committee considered it appropriate instead to measure achievement against the original nine-month targets. This resulted in achievement below the maximum amount and therefore only partial payout against them (which is currently deferred and which may be further deferred under the Deferred Bonus Plan as set out earlier).

(3) A share award of 2,000,000 shares conditional on shareholder approval at the forthcoming AGM (the "Executive Chairman Share Award"). At the date of this report this represents approximately £125,000, the face value of which at the current share price is materially below the maximum LTIP grant for Executive Directors of 200% of salary (or 300% of salary in exceptional circumstances) under the Directors' Remuneration Policy. The award would vest subject to the performance conditions referred to below:

(a) as to 60% of the total award, on successful completion of a new capital structure for the Group by 31 December 2020 or such other date as the Remuneration Committee determines to be appropriate; and

(b) as to 40% of the total award, on successful onboarding of the new permanent Chief Executive Officer securing the future management of the Group by 31 December 2020 or such other date as the Remuneration Committee determines to be appropriate;

in each case subject to the satisfaction of the Committee (which will retain the ability to apply an overriding general discretion) and subject to the same malus and clawback provisions being introduced into the LTIP (as described above). The capital restructuring performance condition is intended to be achieved by around the time the new CEO is onboarded to ensure independence is not compromised by ongoing performance conditions for any significant period after Tim returns to the role of Non-Executive Chairman.

Although this Executive Chairman Share Award would vest on the achievement of performance conditions, any shares delivered (net of tax) would normally be subject to a holding period totalling three years from the date of grant. Other conditions would be similar to those under the LTIP.

As the Executive Chairman Share Award is a bespoke award, as well as this being accommodated within the proposed remuneration policy, it is subject to a specific vote by shareholders at the forthcoming 2020 AGM.

Conclusion

I trust that shareholders will support the proposals at the AGM, given the ground-up review and significant changes made during 2019, and the actions since taken in 2020 in response to the COVID-19 pandemic. I am available to discuss matters if any shareholder or proxy advisor has any remaining questions and I am contactable through the Company Secretary.

Mike Turner
Remuneration Committee Chairman
30 April 2020

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 provisions of the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The policy has been developed taking into account the principles of the UK Corporate Governance Code, the guidelines published by institutional advisory bodies and the views of our major shareholders. Normally, the Company is only required to prepare and seek shareholder approval for an updated Directors' Remuneration Policy at least once every three years. It is, though, doing so this year because of the rejection of the remuneration report at last year's Annual General Meeting. The Directors' Remuneration Policy will be put to a shareholder vote at the Company's Annual General Meeting and is detailed below.

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 best UK and local UAE market practice, whilst providing an appropriate balance between fixed and variable pay that supports the delivery of the Group's strategy.

In its development of the new policy, the Committee took account of the six factors set out in the UK Corporate Governance Code summarised below:

- **Clarity**
  - The proposed Policy seeks to be transparent to shareholders and clear for Directors.
- **Simplicity**
  - The proposed Policy seeks to follow a standard easy to understand structure for ongoing remuneration with one-off variations only where appropriate for the Group's specific circumstances.
- **Risk**
  - The proposed policy seeks to balance opportunity with risk in relation to the specific circumstances of the Group.
- **Predictability**
  - The proposed policy seeks to quantify potential outcomes from achievement of both shorter and longer-term objectives as well as quantifying fixed remuneration.
- **Proportionality**
  - The proposed policy is structured to incentivise and reward targets to benefit the Group whilst fairly rewarding directors for working towards those targets and retaining overriding discretion to override formulaic outturns where it considers appropriate.
- **Alignment to culture**
  - The proposed policy is intended to be aligned with the culture being developed in the Group of empowerment to achieve Group objectives coupled with reward for doing so within an environment of integrity.

The Committee was able to consider corporate performance on ESG issues when setting executive directors' remuneration. The Committee has ensured that the incentive structure for Senior Management does not raise ESG risks by inadvertently motivating irresponsible behaviour.

The following table sets out the Directors' Remuneration Policy.

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance criteria
No changes are proposed to the current approved policy				
Base salary	• To attract, and retain talented people with the right range of skills, expertise and potential in order to maintain an agile and diverse workforce that can safely deliver our flexible offshore support services	• 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 salary will take into account individual performance as well as the pay and conditions in the workforce	• Any increases in base salary will not take the level of base salary above the level justified in the Committee's opinion by the factors set out below • 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

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance criteria
Changes are proposed to the current approved policy to maintain overall cap though provide additional flexibility by increasing the normal maximum from 100% of salary to 120% of salary; to confirm that financial and non-financial or strategic targets not linked to a set of annual results can straddle two financial years; and to allow deferral under the Deferred Bonus Plan				
STIP	• To encourage and reward delivery of the Group's annual strategic, 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 • STIP will normally be paid wholly in cash up to 100% of base salary • STIP in excess of 100% of base salary will normally be deferred in GMS shares for up to two years • The Committee has the discretion to defer a greater proportion of the STIP in GMS shares • Deferral will be under the Deferred Bonus Plan. Any dividends that accrue during the deferral period may be paid in cash or shares at the time of vesting of the award • Clawback and/or malus can be applied for three years from the end of the financial year to which a payment relates, in the event of serious misconduct, reputational harm, corporate failure, a material misstatement of the Company's financial results or an error in the calculation of performance targets • Additionally, up to 100% of the Executive Chairman's 2019 bonus and/or the Special Additional CFO bonus may, at the discretion of the Committee, be deferred under the new Deferred Bonus Plan into GMS shares (rather than paid in cash). Dividends that accrue during the deferral period may be paid in cash or shares at the time of vesting of the award	• Maximum opportunity of 120% or, in exceptional circumstances 150% of base salary (in the case of the Executive Chairman calculated on the uplift base salary)	• The STIP will be based on Group financial performance, other than where the Committee deems appropriate to include additional specific measures • The Committee has discretion to vary STIP 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. If financial and/or (for a minority of the total) non-financial or strategic targets not linked to a set of annual results are used, these can straddle more than one financial year where considered justified

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance criteria
No changes are proposed to the current approved policy other than reducing the threshold vesting level from 30% to 25% and the introduction of the two year holding period				
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 • If the Committee decides it to be appropriate at the time, awards may be cashed out instead of being satisfied in shares • 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 • Malus and clawback provisions apply in the event of serious misconduct, reputational harm, corporate failure, 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 • A two-year post vesting holding period will normally apply	• 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 (TSR) against an appropriate group of peers. Measures are captured independently • 25% of an award will vest for achieving threshold performance, increasing pro-rata to full vesting for achievement of maximum performance targets • The Committee has discretion to vary the level of vesting downwards or upwards if it considers the outcome would not otherwise be a fair reflection of the performance achieved by the Company

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance criteria
No changes are proposed to the current approved policy				
End of service gratuity	• To provide an end of service gratuity as required under UAE Labour law	• End of service gratuity contributions are annually accrued by the Company after an employee served for more than one year • The calculation is based on basic salary, duration of service and type of the contract: limited or unlimited. The Committee has no discretion on the amount. It is set and regulated by UAE Labour Law	• The maximum pay out to an employee is limited by UAE Labour Law to two years' base salary	• N/A
No changes are proposed to the current approved policy				
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 which would not exceed those considered appropriate by the Committee	• N/A
No changes are proposed to the current approved policy				
Allowances	• Allowances set to cover living and travel costs where the director serves outside their home country and 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	

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance criteria
Changes are proposed to the current approved policy to increase the level to be held and introduce a post cessation policy				
Share ownership guidelines	• To encourage alignment with shareholders	• Executive Directors are required to build and maintain a shareholding equivalent to at least 200% 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 • Executive Directors ceasing in their role are required to retain their then shareholding, up to their minimum in-service requirement in the first year and 50% of that in the second year, subject to the discretion of the Committee to vary the level or length of these requirements if it considers that to be appropriate in the circumstances at the time	• N/A	• N/A
These are new, exceptional elements				
Special Additional CFO Bonus	• As set out in the Chairman's Letter on page 51	• This element of pay will be operated on a one-off basis for 2019/2020 and may be operated under the Deferred Bonus Plan	• 30% of salary as at date of appointment	• As set out in the Chairman's Letter on page 51
Executive Chairman Share Award	• As set out in the Chairman's Letter on pages 52 to 53	• This element of pay will be operated on a one-off basis under a bespoke share plan arrangement based on the rules of the LTIP	• 2,000,000 shares	• As set out in the Chairman's Letter on pages 52 to 53

NOTES TO THE TABLE

STIP performance measures

The STIP 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.

LTIP performance measures

The LTIP performance measures will reward long-term financial growth and significant long-term returns to shareholders. Targets are set by the Committee each year on sliding scales that take account of internal strategic planning and external market expectations for the Group. Only 25% of 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.

For 2020, the LTIP performance measures will be relative total shareholder return (TSR) in relation to (a) a peer group of comparable companies selected by the Remuneration Committee at the time of grant of LTIP awards (for half of each award) and (b) the FTSE 250 excluding financial services (for the other half of each award) with threshold achievement at median performance and full achievement at upper quartile performance. These measures have been selected as they directly relate to the generation of shareholder value. Flexibility is reserved to change these measures in future years within the terms of the Policy Table above.

Discretion

The Committee operates annual short term and long term incentive arrangements for the executive Directors 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 policy and plan limits) and/or a payment;
- the annual review of performance measures, targets and weightings for the STIP and LTIP from year to year;
- discretion relating to the measurement of performance and adjustments to performance measures and vesting levels 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.

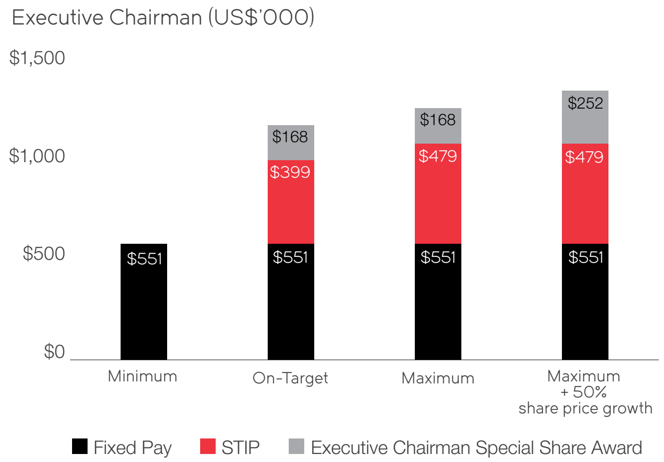
Payments under previous policies

Any remuneration payment or payment for loss of office to which a director became entitled under a previous directors' remuneration policy or before the person became a director (unless the payment was in consideration of becoming a director) may be paid out even though it may not be consistent with this policy.

Remuneration scenarios for the Executive Chairman

The chart below shows an estimate of the potential future remuneration payable for the Executive Chairman in 2020 at different levels of performance. The chart highlights that the performance-related elements of the package comprise a significant portion of the Executive Chairman's total remuneration at on-target and maximum performance.

The table below sets out notional remuneration of the Executive Chairman to the Executive element of his salary on the basis that he acts as Executive Chairman for the entire first year of the policy. This is, though, an interim appointment only until a new CEO is appointed after which the Chairman will revert to his Non-Executive remuneration, which is not included in this analysis.



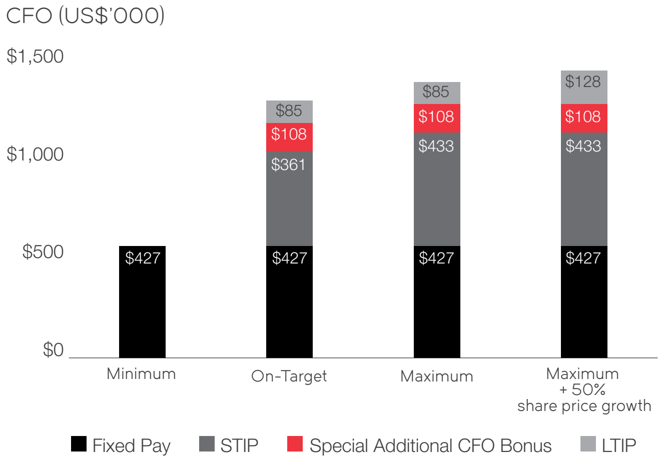
1 Tim Summers's contractual entitlement is expressed in UAE Dirhams and is shown above in US$ using an exchange rate of US$ 1/AED 3.655. Minimum remuneration represents uplift base salary, allowances and benefits (such as accommodation and insurance) on the basis of a full year of executive service.

2 Minimum performance assumes no award is earned under STIP and no vesting is achieved under the Executive Chairman Share Award. At on-target, 100% of the STIP, and 100% of the Executive Chairman Share Award are earned; and at maximum, 120% of the base uplift salary, and 100% Executive Chairman Share Award are earned. As the Executive Chairman Share Award partially covers 2020 performance as well, for the calculation above full amounts of the award were taken into account.

3 Share awards were calculated based on the share price on the date of the report (30 April 2020) which was GBP 0.0632 at a rate of US$ 1/GBP 0.75. The righthand column shows the maximum amount achievable under the Executive Chairman Share Award, assuming share price growth of 50% in the period between grant and vesting.
4 The figures above do not reflect a 40% temporary salary cut and proportionate reduction in the bonus potential as described in the Chairman's letter.

Remuneration scenarios for the CFO

The chart below shows an estimate of the potential future remuneration payable to the CFO in 2020 for minimum, on-target, and maximum performance. The chart highlights that the performance-related elements of the package comprise a significant portion of the CFO's total remuneration at on-target and maximum performance.



1 Steve Kersley's remuneration is currently paid in UAE Dirhams and shown above in US$ using an exchange rate of US$ 1/AED 3.655.
2 Minimum remuneration represents base salary (pro rated to full year) and allowance levels are based on those paid in 2019. It also includes benefits such as accommodation and insurance (on the basis of the cost of those paid in 2019).
3 Minimum performance assumes no award is earned under the STIP and Special Additional CFO Bonus and no vesting is achieved under the LTIP award. At on-target, 100% of the STIP and Special Additional CFO Bonus are earned; and at maximum 120% of base salary, 100% Special Additional CFO Bonus and 100% LTIP award are earned. This assumes no deferral of STIP or Special Additional CFO Bonus.
4 The maximum 2020 LTIP award is assumed to be equal to the 2019 award. The LTIP awards were calculated based on the report date (30 April 2020) share price which was GBP 0.0632 at a rate of US$ 1/GBP 0.75. The righthand column shows the maximum amount achievable assuming share price growth of 50% in the period between grant and vesting.

How remuneration of the 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, STIP and LTIP arrangements for the management team, to ensure that there is a coherent approach across the Group. The STIP plan and LTIP operate on a similar basis across the Senior Management team. The key difference in the Executive Directors 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 Directors. Because of the lack of visibility and influence over achievement of performance measures, the pay of employees outside the management team is much less linked to performance and is mostly in the form of salary and benefits.

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

Consideration of shareholder views

The Committee engages directly with major shareholders and their representative bodies on any major changes planned to the Directors' Remuneration Policy or how the policy will be implemented. It consulted with the Company's ten largest shareholders representing approximately 75% of the Company's share capital together with the three main proxy advisors. All shareholders who responded directly in the consultation were supportive of the proposals. Some suggestions were received from the proxy advisors and, except in so far as impractical or inadvisable in the specific circumstances to do so, these have been taken into account in the final proposals.

Following the Company's AGM in 2020, details of votes cast for and against the resolutions to approve the Directors' Remuneration Policy and Annual Report on Remuneration will be included in the next Annual Report on Remuneration published following the AGM.

Executive 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 base 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 base 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. In the event of an executive Director being recruited to work outside the UAE, alternative benefits, pension provision and/or allowances may be provided in line with local market practice. Recognising the international nature of the Group's operations, where appropriate to recruit, promote or transfer individuals to a different location of residence, the Committee may also, to the extent it considers reasonable, approve the payment of one-off relocation and repatriation related expenses. It may also approve legal fees appropriately incurred by the individual in connection with their employment by the Group.
STIP 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 and would not count towards the limits on STIP and LTIP in the remuneration policy. 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.

Directors' service agreements and payments for loss of office and provision for Change of Control

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

Notice period	Executive Directors' service agreements are terminable on no more than 12 months' notice. The Chief Financial Officer's service agreement is terminable by the Company on 12 months' notice and by the Chief Financial Officer on 9 months' notice. The Executive Chairman's service agreement is terminable by either the Company or the Executive Chairman on 6 months' notice (and automatically reverts to the Non-Executive Chairman terms on appointment of a new CEO). In circumstances of termination on notice the Committee will determine an equitable compensation package, which may be comprised by some or all of the items set out below together with legal fees and repatriation expenses 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 (ignoring any temporary reduction), 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.

STIP	STIP may be payable in respect of the period of the STIP year worked by the Director; there is no provision for an amount in lieu of STIP to be payable for any part of the notice period not worked. In determining the amount of any STIP to be paid, the Committee will have regard both to the extent to which relevant performance measures have been achieved and to any other circumstances of departure or the directors' performance which the Committee considers relevant. Unless exceptionally the Committee determines otherwise, the policy provisions in relation to the deferral of bonuses would be applied. Any bonus previously deferred would normally continue to be deferred under the terms of that plan. Deferral of bonus under the Deferred Bonus Plan will normally continue for the deferred period after leaving and will then vest in full but will lapse if the director has left in circumstances in which their employment could have been terminated without notice. The deferral will vest in full on death.
LTIP	Outstanding share awards under the LTIP normally lapse on leaving employment but 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. Performance and circumstance of departure would be assessed by the Remuneration Committee as part of any decision to treat a person as a good leaver and/or to vary pro-rating.
Special Additional CFO Bonus/ Executive Chairman Share Award	If the Executive Chairman leaves employment for one of designated reasons described above or if there is a change of control, the Executive Chairman Share Award will vest on or after leaving or on the change of control, to the extent that the Committee determines, in its discretion, that the performance conditions have then been satisfied and, as to some or all of the balance, having regard, amongst other things, to the extent to which progress had been made toward achieving the conditions. Vesting will not be scaled back pro-rata. The Committee would otherwise deal with these matters on a similar basis to the STIP and LTIP set out above. However, the Executive Chairman will not be treated as leaving employment when he returns to his Non-Executive role.
Other payments	In addition to the above payments, the Committee may make any other payments determined by a court of law or to settle any legal claim in respect of the termination of a Director's contract.
Change of control	In the event of a change of control or a demerger, special dividend or other similar event affecting the share price, the Committee shall, in terms of the share plan rules in its absolute discretion, determine whether an unvested Award will vest. To the extent that it determines that the performance conditions have been satisfied. The Committee may also decide that the award will vest to a greater or lesser extent having regard to the Director's or the Group's performance or such other factors it may consider appropriate. The Committee may decide that awards will vest pro-rata to take account of early vesting. Alternatively, the award may be exchanged for equivalent awards over shares in an acquiring company.

The date of the Chief Financial Officer's Service Agreement is 20 May 2019. Steve Kersley's service agreement provides that he is entitled to an additional 6 month's notice if terminated following a change of control, on or before 9 June 2020. The date of the Executive Chairman's Service Agreement is 1 October 2019. These Service Agreements are available for inspection during normal business hours at the Company's registered office and will be available for inspection at the AGM.

External appointments

The Committee recognises that an Executive Director may be invited to become a Non-Executive Director in another company and that such an appointment can enhance 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 would normally be permitted to retain any fees paid for such services. The current Executive Directors do not hold any such external appointments in public companies.

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, reward and retain 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	• Total Non-Executive Director fees must be within any limit prescribed by the Company's Articles of Association (currently £750,000) and individual fees will take account of the factors set out in this table. 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 and operational headquarters	• Travel to the Company's registered office and operational headquarters 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 (but are subject to annual re-election), which are terminable by three months' notice by the Director or the Company. In relation to a Chairman, the Company retains flexibility to set a notice period of up to six months.

The dates of the letters of appointment of the Chairman and Non-Executive Directors are:

Mo Bississo[1]	Non-Executive Director	1st March 2019
David Blewden[2]	Independent Non-Executive Director	1st June 2019
Dr Shona Grant	Independent Non-Executive Director	19th October 2018
Tim Summers[3]	Non-Executive Chairman	1st April 2019
Mike Turner[4]	Independent Non-Executive Director	1st June 2019
W. Richard Anderson[5]	Independent Non-Executive Director	27th February 2017
Simon Batey[6]	Independent Non-Executive Director	27th February 2017
Simon Heale[7]	Non-Executive Chairman	27th February 2017

1 Mo Bississo was appointed a Non-Executive in March 2019 and resigned from the Remuneration Committee in December 2019.
2 David Blewden was appointed Independent Non-Executive Director in June 2019.
3 Tim Summers became Executive Chairman on 21 August 2019.
4 Mike Turner was appointed a Non-Executive with effect from June 2019.
5 Richard Anderson resigned from the Board in April 2019.
6 Simon Batey did not stand for re-election at the AGM and retired from the Board in May 2019.
7 Simon Heale stood down from the Board in March 2019.

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) Regulations 2008 and 9.8.6R of the Listing Rules. The Annual Report on Remuneration will be put to an advisory shareholder vote at the 2020 AGM. Sections of this report that are subject to audit have been indicated.

Shareholder voting at AGM

The 2019 Annual Report on Remuneration will be subject to an advisory shareholder vote at the 2020 AGM. Votes cast by proxy and at the 2019 AGM in respect of the Directors' Remuneration Report and at the 2018 AGM 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 Report for the year ended 31 December 2018	39,173,417	14.51	230,732,947	85.49	8,006	269,906,364
To approve the Directors' Remuneration Policy	201,055,052	77.90	57,028,909	22.10	36,836	258,083,961

The Directors' Remuneration Report received a 85.49% vote against at our 2019 AGM, primarily in relation to the lack of alignment between Executive remuneration and Group financial performance under the previous Board. The reconstituted Committee has now set targets under Executive remuneration arrangements that more closely align with Group financial performance and the generation of shareholder value.

External advice received

In carrying out their responsibilities, the Committee seeks external advice as necessary. In 2019, given the extensive engagement with shareholders, the Committee did not seek the advice of external advisors in its deliberations.

Executive Directors' single total figure of remuneration earned in 2019 (audited)

The table below summarises Directors' remuneration in respect of 2019.

		Fixed element of pay			Pay for performance			
		Base salary US$'000	Allowances and benefits[1] US$'000	End of service gratuity[2] US$'000	STIP[3] US$'000	Long-Term Incentives[4] US$'000	Other US$'000	Total remuneration US$'000
Executive Director Steve Kersley[5]	**2019**	**361**	**57**	**–**	**104**	**–**	**–**	**522**
	2018	–	–	–	–	–	–	–
Executive Chairman Tim Summers[6]	**2019**	**399**	**69**	**–**	**163**	**–**	**–**	**631**
	2018	–	–	–	–	–	–	–
Executive Director Duncan Anderson[7]	**2019**	**416**	**142**	**35**	**–**	**–**	**–**	**592**
	2018	416	162	35	209	–	–	822

1 Allowances include fixed cash allowances for air travel and transport. Other benefits include accommodation, private medical insurance for the executive and immediate family, death in service insurance, disability insurance. The amounts are shown as per actual expenditures.

2 End of service gratuity is the provision accrued for in the year in accordance with UAE Labour Law. Please refer to page 58 for more information. Pension provision is not a feature of Executive Director remuneration packages. Under the current policy of the Company US$ 35,000 was paid to Duncan Anderson in January 2019 on account of the end of service gratuity.

3 Short term Incentive plan for the financial year. As explained in the Chairman's letter, these amounts have been deferred and may be paid later in 2020 at the Committee's discretion.

4 Share plans vesting represent the value of LTIP awards where the performance period ends in the year. No awards vested in the year for the LTIP granted on 22 March 2016 as the performance conditions were not achieved during the period.

5 Steve Kersley was appointed as a Chief Financial Officer effective 9 June 2019. His basic pay has been pro-rated to full year to aid compatibility. The actual amount paid in 2019 for basic salary was US$ 202,000. The remuneration was paid in UAE Dirhams and reported in US$ using an exchange rate of US$ 1/AED 3.655.

6 Tim Summers became Executive Chairman effective 21 August 2019. His base pay is split for two roles – Executive Director and Chairman. Only the Executive Director portion is shown in the table above. The pay has been pro-rated to full year to aid compatibility. The actual amount paid for the uplift base salary in 2019 was US$ 143,000. From 1 October 2019 he transferred to the UAE and his remuneration is paid in UAE Dirhams and reported in US$ using an exchange rate of US$ 1/AED 3.655.

7 Duncan Anderson stepped down from the role of CEO and as a Board Director on 21 August 2019 and was placed on a garden leave for 12 months. The remuneration was paid in UAE Dirhams and reported in US$ using an exchange rate of US$ 1/AED 3.655.

Performance against STIP targets for 2019 (audited)

The STIP structure was completely redesigned during 2019 so that all employees including Executive Directors are working towards the same transparent targets (this redesign took place prior to the appointment of the Executive Chairman). For 2019 the STIP opportunity was set at 100% of base salary. The STIP was assessed against the following Group objectives:

Measure	Weighting	Performance range (from zero to full pay-out*)	Result	% of base salary payable
EBITDA	60%	Less than US$ 50m – greater than US$ 58m	US$ 51.375m	6.83%
Securing contract % of 2020 Budget revenue	15%	Less than 60% – greater than 75%	85.2%	17.04%
2021 backlog	5%	Less than 35% – greater than 45%	44.55%	4.76%
Subtotal				**28.63%**
Annualised cost savings	10%	Greater than US$ 5m – US$ 6m	US$ 13m	12%
Cost control (EBITDA margin)	10%	Less than 40% – greater than 44.6%	47.25%	10.96%
Total	**100%**			**51.59%**

1	EBITDA*	<US$ 50m	US$ 50m-US$ 54m	US$ 54.1m-US$ 56m	US$ 56.1m-US$ 58m	US$ 58.1m-US$ 70m
	Score	0	0-20%*	20-35%*	35-60%*	60-72%*max
2	Securing contracts % of 2020 budget revenue*	60%	60%-65%	65.1%-70%	70.1%-75%	75.1%-90%
	Score	0	0-5%*	5-10%*	10-15%*	15-18%*max

3	2021 backlog*	<35%	35%-40%	40.1%-45%	45.1%-54%
	Score	0	0-2%*	2-5%*	5-6%*max
5	Cost control* (EBITDA Margin)	<40%	40%-42.7%	42.8%-44.6%	44.7%-50%
	Score	0	0-4%*	4-10%*	10-12%*max

4	Annualised cost savings*	<US$m	US$ 5m-US$ 6m	US$ 6.1m-US$ 7.2m
	Score	0	0-10%*	10-12%*max

* Zero to full pay-out is not linear as bands operate within the performance ranges shown. Up to an additional 20% of salary could be earned for out-performance (the final band in the ranges shown above).

As described in the introduction, the Executive Chairman Special Bonus was based on the achievement of five targets that were measured as at the end of 2019. The bonus is calculated on the uplift base salary only.

The first three targets listed below were numerically measurable targets with the outcome determined by the measured performance against these. The fourth and fifth targets listed below (accounting for a maximum of 15% of the total) were based on assessment of the Remuneration Committee taking account of the factors listed.

Target	Range	Total potential	Achievement	Amount $US
Operating expense reduction	US$ 2.75m–US$ 3.75m calculated on a straight line basis	30%	US$ 2.94m – 19%	22
General and administrative expenses reduction	US$ 2.75m–US$ 4.255m			
Generation of new business/ contracts	calculated on a straight line basis	15%	US$ 3.614m – 86%	50
	a backlog win rate US$ 10m to US$ 14m monthly	40%	US$ 13.275m – 39%	61

Target	Range	Total potential	Achievement	Amount $US
Organisation change	– Reduction in operational footprint. – Improvement in variable pay programme. – Introducing cost control structures. – Planned maintenance procedures	7.5%	50%	15
Cultural change	– Improved internal and external communications. – Introducing employee engagement procedures. – Implementation of employee survey.	7.5%	50%	15
Total		**100%**		**163**

* The payment for the generation of new business/contracts was based on a monthly rate and therefore payment under this has been reduced pro-rata for the period of the original period set for the Executive Chairman Special Bonus (4.3 months of 9 months).

** As explained in the Chairman's letter, the payment of this amount has been deferred. Additionally the Committee may determine to defer some of all of this amount under the new Deferred Bonus Plan.

In the case of the former CEO, the Committee recommended to the Board a downward revision, with the result that zero STIP was awarded. This downward revision, in line with current policy, was arrived at after careful deliberation over the performance of the Group under his leadership.

LTIP awards vesting for 2019 (audited)

LTIP awards were granted to the former CEO on 22 March 2016 over 677,168 ordinary shares. No awards vested in the year on the LTIP granted on 22 March 2016 as the performance conditions were not achieved during the period. 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]	50%	6.2%-9.7% per annum	Less than 6.2%	0%	0
TSR[2]	50%	Median of index – 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 2014.
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 Chief Financial Officer on 15 November 2019 over shares with a value of 150% of base salary. A summary of the LTIP awards currently granted is provided in the tables below. The LTIP awards granted do not include payments in respect of accrued dividends during the performance period.

	Date of grant	Number of shares	Face value	Face value as a percentage of base salary	End of vesting period	Performance conditions
Duncan Anderson[1]	16 April 2018	1,156,067	US$ 615,606[1]	150%	27 March 2021	See table below
Steve Kersley[2]	15 November 2019	1,025,333	US$ 114,550[2]	150%	14 November 2022	See table below

1 Award face value (and value as a percentage of base salary) is calculated using the closing share price on 27 March 2018, being 37.5p 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$ 1.42, being the exchange rate on that date. The minimum award available is nil.
2 Award was based on a fixed number of shares and assumes all performance conditions are met in full. The minimum award available is nil.

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

Performance condition	Weighting	Threshold target (30% vesting)	Stretch target (100% vesting)
Duncan Anderson (28 March 2018 – 27 March 2021)			
EPS CAGR	50%	136% per annum	184% per annum
Relative TSR[1]	50%	Median of index[1]	Upper quartile of index[1]
Steve Kersley (15 November 2019 – 14 November 2022)			
Relative TSR compared to a group of peer companies	50%	Median of index	Upper quartile of index
Relative TSR compared to FTSE 250 Index excluding financial services companies	50%	Median of index[1]	Upper quartile of index[1]

1 FTSE 250 Index excluding financial services companies.

No LTIP awards were granted in 2017.

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.

Awards outstanding under the Company's LTIP as at 31 December 2019 comprise:

	Grant date	No. of shares 01/01/19	Granted during the year	Vested during the year	Exercised during the year	Lapsed during the year	No. of shares 31/12/19	End of performance period	Vesting date
16 April 2018	27 March 2018	1,156,067	–	–	–	–	1,156,067	31/12/20	27/03/21
15 November 2019	15 November 2019	–	1,025,333	–	–	–	1,025,333	15/11/22	14/11/22
Total awards outstanding							2,181,400		

Executive Directors

Base salary

In 2019 the Company undertook a fundamental governance and management overhaul with the replacement of the Chairman, the CFO and Independent Non-Executive Directors. On 21 August 2019 Mr Duncan Anderson resigned from the role of CEO and as a Board Director. Mr Tim Summers, formerly Non-Executive Chairman, took over the interim role of Executive Chairman. Steve Kersley was appointed as a Chief Financial Officer of GMS, effective 9 June 2019. The appointment also saw Mr Kersley join the Board of Directors.

The former CEO's salary for 2019 was held at 2018 levels.

For the Executive Chairman appointed on 21 August 2019, the salary includes both Chairman and Chief Executive roles.

End of service gratuity

As required under UAE Labour Law, the Company accrues for the end of service gratuity entitlement in respect of the CEO. The gratuity equates to 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. The amount of the end of service gratuity accrued to date may be pre-paid, and this was the practice of the prior Board. The current Committee finds this inappropriate. For 2019 and going forward, end of service gratuity will not be paid prior to cessation of employment.

Director's pension entitlement (audited)

The Company does not operate a pension scheme and accordingly no element of remuneration is pensionable.

Payments for loss of office (audited)

Duncan Anderson resigned from the Board on 21 August 2019 and was placed on gardening leave for the following 12 months. During this period, he continues to receive his contractual benefits on a monthly basis. This includes the continued provision of his private medical insurance, on the same terms for the remainder of the contractual notice period. All these payments are made in accordance with the existing termination policy. At the end of his garden leave period (10 August 2020), Duncan Anderson's employment will terminate, and the Company will pay the remaining end of service gratuity in accordance with UAE Labour Law.

Duncan Anderson will receive no STIP in respect of 2019, reflecting his contribution.

Payments over 12 months (21 August 2019 to 20 August 2020)	In US$ '000
Salary	416
Benefits (accommodation)	85
Benefits (flights, food, transportation)	31
Medical insurance	25
End of service gratuity (earned but not paid until cessation of employment)	24
Total	**582**

Statement of implementation of Directors' Remuneration Policy in 2020

Base salary in 2020

As outlined above there has been a significant management overhaul. The CFO and Executive Chairman base salaries are set out below:

	Base salary from 1 January 2020 US$'000	Base salary from 1 January 2019 US$'000	% change
Steve Kersley[1]	361	361	0%
Tim Summers[2]	399	399	0%

1 Steve Kersley was appointed as a Chief Financial Officer, effective 9 June 2019. His pay has been pro-rated to full year to aid compatibility. The remuneration was paid in UAE Dirhams. The exchange rate as of Dec 31, 2019 was US$ 1/AED 3.655.

2 Tim Summers became Executive Chairman effective 21 August 2019. His base pay is split for two roles – Executive Director and Chairman. Only the Executive Director portion is shown in the table above. The pay has been pro-rated to full year to aid compatibility. From 1 October 2019 he transferred to the UAE and his remuneration is paid in UAE Dirhams and reported in US$ using an exchange rate of US$ 1/AED 3.655.

Allowances and benefits for 2020

The cash allowances for 2020 comprise payments to cover costs of air travel and transport will be as follows:

	Allowances from 1 January 2020 US$'000	Allowances from 1 January 2019 US$'000	% change
Steve Kersley[1]	21	12	44%
Tim Summers[2]	42	41	2%

1 Steve Kersley was appointed as a Chief Financial Officer, effective 9 June 2019. The allowances are shown as per actual and the change only reflects the shorter period served in 2019. The remuneration was paid in UAE Dirhams. The exchange rate as of 31 December 2019 was US$ 1/AED 3.655.

2 Tim Summers became Executive Chairman effective 21 August 2019. The allowances are shown as per actual and the change only reflects the shorter period served in 2019. From 1 October 2019 he transferred to the UAE and his remuneration is paid in UAE Dirhams and reported in US$ using an exchange rate of US$ 1/AED 3.655.

Other benefits to be provided directly include accommodation, private medical insurance for the Executive Directors and close family in line with local legal requirements, death in service insurance, and disability insurance.

STIP for 2020

For 2020 the maximum STIP opportunity will be 120% of base salary (or uplift base salary) taking into account any temporary reductions. Any portion above 100% of salary will be deferred into shares under the new Deferred Bonus Plan (subject to shareholder approval). The STIP will be based on Group financial performance, weighted as follows:

Measure	Weighting
EBITDA	60%
Securing Contract % of 2021 Business Plan Revenue	15%
2022 Backlog*	5%
Cash Generation	10%
Cost Control (EBITDA margin)	10%
Total	**100%**

* Backlog shows the total order book of contracts (comprising firm and option periods) at year end. No elements of the STIP are guaranteed.

The targets for the STIP are considered commercially sensitive because of the competitive nature of the Company's market and will be disclosed in next year's annual report.

Long-term incentive awards to be granted in 2020

Assuming that the proposed new policy is approved, from this year, any STIP awards receivable in excess of 100% of base salary will be subject to a two-year deferral. The award will be subject to strengthened malus and clawback provisions, which have been expanded to include serious misconduct, reputational harm and corporate failure, such as the Company going into administration or liquidation, in addition to a material misstatement of the Group's financial results or an error in the calculation of performance targets. The provisions will apply for three years from the end of the financial year to which a payment relates.

Subject to the required shareholder approvals, the Committee intends to make an LTIP award to the CFO in 2020. As in 2019, this will necessarily be significantly less than the normal annual limit of 150% of salary due to current restrictions on share capital dilution. It is again intended that these awards be subject to three-year relative TSR performance targets. The measures for these targets will be relative total shareholder return (TSR) in relation to (a) a peer group (for half of each award) and (b) the FTSE SmallCap index excluding financial services (for the other half of each award) with threshold achievement at median performance and full achievement at upper quartile performance. From 2019, a two-year post-vesting holding period exists for LTIP awards.

Details of the Special Additional CFO Bonus and the Executive Chairman Share Award are set out on pages 51 to 53.

Non-Executive Directors' single figure table (audited)

	Fees 2019 US$'000	Fees 2018 US$'000	Total remuneration 2019 US$'000	Total remuneration 2018 US$'000
Chairman[1]				
Tim Summers[2]	**133**	–	**133**	–
Simon Heale[3]	**75**	211	**75**	211
Non-Executive Directors[1]				
Mo Bississo[4]	**–**	–	**–**	–
David Blewden[5]	**39**	–	**39**	–
Dr Shona Grant	**60**	12	**60**	12
Mike Turner[6]	**43**	–	**43**	–
W. Richard Anderson[7]	**22**	67	**22**	67
Simon Batey[8]	**30**	74	**30**	74
Dr Karim El Solh[9]	**–**	25	**–**	25
Non-Executive Director total	**402**	389	**402**	389

1 The Chairman and Non-Executive Directors' remuneration is paid in Pound Sterling and reported in US$ using an exchange rate of US$ 1.33/£1 for 2019.
2 Tim Summers became Executive Chairman from 21 August 2019. His base pay is split for two roles Executive Director and Chairman. The pay has been pro-rated to full year to aid compatibility. The actual amount paid for the Non-Executive role in 2019 was US$ 104,000. From 1 October 2019 he transferred to the UAE and his remuneration is paid in UAE Dirhams and reported in US$ using an exchange rate of US$ 1/AED 3.655.
3 Simon Heale stepped down from the Board and Chairman role in March 2019.
4 Mo Bississo was a Non-Executive Director from March and waived his entitlement to receive a fee for this role.
5 David Blewden was appointed to the Board and as Chairman of the Audit and Risk Committee in June 2019.
6 Mike Turner was appointed to the Board and as Chairman of the Committee in June 2019.
7 Richard Anderson, independent Non-Executive director, resigned from the Board on 30 April 2019.
8 Simon Batey was independent Non-Executive director, retired from the Board on 30 April 2019.
9 Non-Executive Director Dr Karim El Solh resigned from GMS Board with effect from 30 April 2018.

Directors' interests in ordinary shares (audited)

Through participation in performance-linked share-based plans, there is strong encouragement for the Executive Directors to build and maintain a significant shareholding in the business.

As set out in the existing Directors' Remuneration Policy, from 2019 the Committee requires the CEO to build and maintain an increased shareholding in the Company equivalent to 200% of base salary. The shareholding requirement for other Executive Directors is being increased also to be 200% of base salary. Until this requirement 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 would normally 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 2019 were as follows:

	At 31 December 2019	At 31 December 2018	Shareholding ownership requirement met?	Outstanding LTIP awards
Mo Bississo	8,949[1]	8,949[1]	N/A	–
David Blewden	–	–	N/A	–
Steve Kersley	–	–	N/A	1,025,333
Tim Summers	–	–	N/A	–
Mike Turner	–	–	N/A	–
Duncan Anderson[2]	2,014,622	2,014,622	Yes	1,156,067
W. Richard Anderson	153,453	153,453	N/A	–
Simon Batey	234,913	234,913	N/A	–
Simon Heale	294,074	294,074	N/A	–

1 These shares are beneficially held by Mr Bississo's wife, Sara Alom Ruiz.
2 Shareholding as at 21 August 2019 when Mr. Anderson stepped down from the Board.

There were no changes to the interests of the Directors in the ordinary shares of the Company in the period from 1 January 2020 to 30 April 2020.

* 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. Full details of LTIP awards are set out on page 68.
** There are no other share, share option schemes or outstanding share awards other than LTIP awards.

Fees for the Executive Chairman and Non-Executive Directors

The Executive 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. Non-Executive Directors receive no other benefits and do not participate in short-term or long-term reward schemes. In 2019 after Duncan Anderson's resignation, the Chairman Tim Summers became Executive Chairman. Mo Bississo who joined as a Non-Executive Director on March 1 waived his entitlement to receive a fee for this role. A summary of the current fees and those for 2020 are set out below; 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 2020 £'000	Annual fee 2019 £'000	% change
Chairman, Tim Summers[1]	200	200	0%
Chairman, Simon Heale[2]	–	158	100%
Independent Non-Executive Director base fee	45	45	0%
Additional fees:			
Senior Independent Director	5	5	0%
Audit and Risk Committee Chair	5	5	0%
Nomination Committee Chair[3]	–	–	0%
Remuneration Committee Chair	5	5	0%

1 From April to 21 August Tim Summers was Non-Executive Chairman. From 21 August his pay also included the Executive Chairman position. In the table above only Non-Executive position pay is presented. It is also pro-rated to full year to aid compatibility. The actual amount paid to Tim for the Non-Executive role in 2019 was GBP £150,000.
2 Simon Heale stepped down from the Chairman role in March 2019. His pay was pro-rated to full year to aid comparability. The actual amount paid to Simon in 2019 was GBP £57,000.
3 The Executive Chairman, Tim Summers is the Chair of the Nomination Committee and there is no separate pay for this position.

Percentage change in remuneration levels

The table below shows the variance in base salary, allowances and benefits, and STIP for the Executive Chairman in the 2019 financial year, compared to that for employees of the group as a whole:

	% change
Executive Chairman/CEO	
Base salary	3%
Allowances and benefits	4%
STIP	-22%
All employees	
Base salary	4%
Allowances and benefits	2%
STIP	17%

* Chairman is treated as CEO for comparative purposes.

** In the case of the former CEO, the Committee recommended to the Board a downward revision, with the result that zero STIP was awarded. This downward revision, in line with current policy, was arrived at after careful deliberation over the performance of the Group under his leadership.

*** Total expenditure on STIP decreased in 2019 compared to 2018, however the changes in the STIP scorecard meant that the bonus percentage increased for the reduced number of individual employees.

Relative importance of the spend on pay

The table below shows overall expenditure on pay in the whole Group in 2019 and 2018 financial years, compared to returns to shareholders through dividends:

	2019 US$'000	2018 US$'000	% change
Overall expenditure on pay	**30,756**	31,490	1%
Dividends and share buybacks	**–**	–	0%

Total shareholder return performance graph

This graph below shows the value, at 31 December 2019, 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. The FTSE 250 Index has been selected for this comparison as it is one of the indexes used to determine performance under the LTIP scheme for Executive Directors and is considered to be the most appropriate index measure.

The total remuneration figures for the CEO during financial years from the 2015 to the 2019 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 STIP award based on that year's performance and the LTIP award based on the three-year performance period ending in the relevant year. The STIP pay out and LTIP award vesting level as a percentage of the maximum opportunity are also shown for each year.

	Year ended 31 December				
CEO/Executive Chairman[1]	2019	2018	2017	2016	2015
Total remuneration (US$'000)	**754**	822	830	970	911
STIP %	**22%**	25%	26%	33%	28%
LTIP vesting %	**–**	–	–	–	–

1 Duncan Anderson resigned from the role of CEO and as a Board Director effective 21 August. The remuneration was paid in UAE Dirhams and reported in US$ using an exchange rate of US$ 1/AED 3.655.

Committee remit and membership

The Terms of Reference of the Committee have been formally adopted by the Board and are available for inspection in the investor relations section of the Company's website. The principal responsibilities of the Committee include:

- setting the strategy, structure and levels of remuneration of our Executive Directors and Senior Management
- ensuring that all remuneration paid to our Executive Directors is in accordance with the approved remuneration policy
- aligning the financial interests of the Executive Directors and other management and employees with the achievement of the Group's objectives

The Committee assists the Board in fulfilling its responsibilities regarding all matters related to remuneration. This includes proposing the Directors' remuneration policy for shareholder approval and governing the implementation of the policy. 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 compliance with UK corporate governance good practice.

The composition of the Committee at 31 December 2019 is in compliance with the Code which provides that all members of the Committee should be independent Non-Executive Directors.

Richard Anderson resigned from the Board and as Chair of the Committee effective 30 April 2019. Simon Batey retired from the Board and Committee effective 30 April 2019. Mike Turner was appointed to the Board and as Chairman of the Committee in June 2019. Mo Bississo joined the Board and the Committee in March 2019, however he left the Committee in December 2019 as part of Corporate Code compliance, when he was replaced by David Blewden. Dr Shona Grant was a member of the Committee for the entirety of the 2019 financial year. The Executive Chairman, Chief Financial Officer and HR team are normally invited to attend for at least part of each meeting to allow the Committee to benefit from their contextual advice. These individuals are not present when the Committee is considering matters concerning themselves. The Company Secretary acts as Secretary to the Committee.

The Committee met on 5 occasions during 2019. Members' attendance at those meetings is shown on page 33. The Committee also held informal discussions as required.

Performance evaluation of the Committee

In 2019, the performance evaluation of the Committee was conducted in conjunction with the main Board evaluation process, further details of which are included on page 48. The Committee has assessed the results of the evaluation process and concluded that the Directors continue to be effective and demonstrate commitment to their roles.

Approval of the Directors' Remuneration Report

The Directors' Remuneration Report, including the Annual Report on Remuneration and the proposed revised Directors' Remuneration Policy, was approved by the Board on 30 April 2020 for presentation to shareholders at the AGM.

Mike Turner
Remuneration Committee Chairman
30 April 2020

This Directors' Report, prepared in accordance with the requirements of the Companies Act 2006, 2018 UK Corporate Governance Code (publicly available on the Financial Reporting Council website), the UK Listing Authority's Listing Rules, and Disclosure and Transparency Rules, contains certain statutory, regulatory and other information. The Strategic Report includes an indication of likely future developments in the Company, details of important events since the year ended 31 December 2019 and the Company's business model and strategy. The Report of the Board includes summaries of the operations of the Board and its Committees and details of the Directors' remuneration. The Strategic Report and the Report of the Board on pages 1 to 31 and 36 to 41 is incorporated in this Directors' Report by reference.

Disclosure requirements of Listing Rule 9.8.4R

The following table provides references to where the information required by Listing Rule 9.8.4R is disclosed:

Listing Rule requirement	Page
Interest capitalised and tax relief	Not applicable
Publication of unaudited financial information	Not applicable
Details of any long-term incentive schemes	67
Waiver of emoluments by a Director	Not applicable
Waiver of future emoluments by a Director	Not applicable
Non pre-emptive issues of equity for cash	Not applicable
Non pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waivers of dividends	Not applicable
Board statement in respect of relationship agreement with the controlling shareholder	Not applicable

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 1 to 31 of this document, which forms part of this report by reference.

Directors

The Directors who served during the year are as follows:
Tim Summers (appointed 1 April 2019).
Steve Kersley (appointed 9 June 2019).
Mo Bississo (appointed 1 March 2019).
David Blewden (appointed 1 June 2019).
Dr Shona Grant.
Mike Turner (appointed 1 June 2019).
Simon Heale (resigned 26 March 2019).
W. Richard Anderson (resigned 29 April 2019).
Simon Batey (retired 28 May 2019).
Duncan Anderson (resigned 20 August 2019).
There have been no changes to the Board between 31 December 2019 and the date of this Report.

Powers of Directors

The Directors' powers are determined by UK legislation and our Articles of Association (the "Articles"), which are available on the Company's website. 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

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 18 of the 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.

Section 172(1) of the Companies Act 2006
The Directors have reviewed the new reporting requirements. For further information on how the Directors have engaged with employees, how they have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the Company during the financial year please refer to page 11. Please also refer to pages 16 to 17 in the Strategic Report where GMS' business relationships with suppliers, customers and others are identified, and the effect of that regard, including on the principal decisions taken by the Company during the financial year.

A description of the Group's diversity policy is set out on page 7 and forms part of this report by reference.

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.

Change of Control
As at 31 December 2019 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:

Share incentive schemes
All of the Company's share-based employee incentive plans detailed in the Report of the Remuneration Committee on pages 50 to 73 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, where it considered appropriate, take into account the satisfaction of any applicable performance conditions at that time and the expired duration of the relevant performance period.

Executive service contract
Steve Kersley's service agreement provides that he is entitled to an additional 6 month's notice if terminated following a change of control, on or before 9 June 2020. Further details of the Group's Executive Director service contracts are included 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.

Group banking facility
Under the terms of the Group banking facility agreement, if any person or persons, acting in concert, gains control of the Company by owning shares which carry 30% or more of the voting rights of the Company, this may result in the repayment or prepayment of total balances outstanding under the Group banking facility, within 30 days of notification of a change in control.

Share capital
Details of the Company's issued share capital as at 31 December 2019 can be found in Note 13 to the consolidated financial statements, on page 116. 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 was granted a general authority by its shareholders at the 2019 AGM to allot shares up to 33% of the Company's issued share capital as at 25 March 2019. The Company also received authority to allot shares for cash on a non-pre-emptive basis up to 5% of the Company's issued share capital as at 25 March 2019. These are routine authorities common amongst listed companies and the Company follows The Investment Association's share capital management guidelines. The Company believes adherence to their guidelines to be in the best interests of the Company and its shareholders generally and intends to continue following these guidelines. As at the date of this Report, no shares have been issued under these authorities. These authorities will expire at the conclusion of the 2020 AGM. Resolutions will be proposed at the 2020 AGM to renew these authorities.

The Company did not buy back any shares during the year, therefore the outstanding authority from the 2019 AGM remains at 34,996,788. At the Company's 2020 AGM, 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 2021 AGM; however, it is intended that this authority be renewed each year.

Substantial shareholders

As at the date of this Report, the Company has been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of voting rights of shareholders of the Company as shown below[1]:

Significant direct/ indirect interest	As at 31 December 2019 Number of shares	As at 31 December 2019 % of share capital	As at 30 April 2020 Number of shares	As at 30 April 2020 % of share capital
Aberforth Partners LLP	69,731,569[1]	19.90%[1]	69,731,569[1]	19.90%[1]
Seafox International Limited	46,066,480	13.73%	46,066,480	13.73%
Mazrui Investments LLC	24,468,999	6.98%	39,827,994	11.36%
Castro Investments Ltd	32,643,538	9.33%	32,643,538	9.33%
Horizon Energy	22, 679,240	6.50%	21,136,709	6.50%
Standard Life Aberdeen PLC	17,856,842	5.10%	13,015,172	3.71%

1 Aberforth Partners LLP has notified that of this total number of shares, it is interested in 23,449,440 shares as a result of the discretionary investment management powers it can exercise over the funds of its clients of which it does not exercise voting rights. The Company has been notified that those voting rights are exercisable by The Wellcome Trust.

Risk management

A description of the main features of the Group's internal control and risk management arrangements in relation to the financial reporting process are set out on pages 20 to 25 and forms part of this report by reference. The Group's financial risk management objectives and policies including the use of financial instruments are set out in Note 27 to the consolidated financial statements on pages 120 to 122.

Post balance sheet events

More details can be found in Note 39 to the consolidated financial statements on page 130.

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 1 to 31 and forms part of this report by reference.

Research and development

The Group did not undertake any research and development activities during the year (2018: none).

Political donations

The Group made no political donations and incurred no political expenditure during the year (2018: nil).

The existence of branches outside the UK

The Group has a branch in Qatar.

Employees and policies
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 level of engagement with employees by the Directors has increased. The Executive Chairman has held quarterly Town Hall style meetings with Onshore staff to provide information on matters of concern to them as employees. For our Offshore staff a recorded a message was sent to communicate such matters in addition to the regular management meetings between On- and Offshore staff. Effective 7 October 2019, Dr Shona Grant has been appointed as the dedicated employee engagement Non-Executive Director (refer to page 11). For more details regarding employee engagement please refer to page 8. For details of LTIP awards refer to page 68.

Greenhouse gas emissions
Information on the Group's greenhouse gas emissions is set out on page 10 and forms part of this report by reference.

Dividends
No dividend is to be paid for 2019 (2018: nil).

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

The Group had committed credit facilities in place at 31 December 2019 (see Note 22), comprising an existing Term Loan facility with a balance of US$ 373.5 million and a Cash Working Capital Facility of US$ 25.0 million which was fully drawn.

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

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

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

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

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

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

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

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

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

This matter is further discussed in the Group's Long Term Viability Statement on page 25.

Seafox International Limited has announced that it made a non-binding proposal to the Board of GMS on 26 April 2020 (see Note 39 for details). The Board has considered the existence of the Proposal in its assessment of going concern and has concluded that it neither alters the nature of the material uncertainties, nor the Board's conclusion in respect of the adoption of the going concern basis in these consolidated financial statements.

Statement on disclosure to the external auditor

Each of the Directors of the Company at the time when this report was approved confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given in accordance with section 418(2) of the Act.

External auditor

Deloitte LLP, the Group's external auditor, 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 2020 Annual General Meeting.

Annual General Meeting (AGM)

Details of the Company's 2020 AGM will be sent to shareholders. The Notice of AGM sent to shareholders will set out the business of the Meeting and an explanatory note on all resolutions. Separate resolutions will be proposed in respect of each substantive issue.

By order of the Board

Tony Hunter
Company Secretary
30 April 2020

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;
- 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; and
- all relevant information for report preparation was provided to the external auditor.

This responsibility statement was approved by the Board of Directors on 30 April 2020 and is signed on its behalf by:

Tim Summers
Executive Chairman
30 April 2020

Steve Kersley
Chief Financial Officer
30 April 2020

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. Opinion

In our opinion:

- **the financial statements of Gulf Marine Services plc (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's loss 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 Financial Reporting Standard 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.**

We have audited the financial statements which comprise:

- the consolidated statement of profit or loss and other comprehensive income;
- the consolidated and parent Company statements of financial position;
- the consolidated and parent Company statements of changes in equity;
- the consolidated and parent Company statement of cash flows;
- the related Notes 1 to 39 to the consolidated financial statements and Notes 1 to 13 of the parent Company financial statements.

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, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent Company for the year are disclosed in Note 37 to the consolidated financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Material uncertainty relating to going concern

We draw attention to Note 3 in the consolidated financial statements and Note 2 to the parent Company financial statements, which indicates that a material uncertainty exists that may cast significant doubt on the Group's and parent Company's ability to continue as a going concern.

The Group has been in negotiation with lenders on a longer-term solution to its capital structure for the last twelve months and has reached an agreement in principle with lenders on a draft term sheet at the date of approving the annual report. Drafting of the loan documentation with lenders is currently underway and the Directors expect this to be completed by 30 June 2020. Should the final documentation of the new loan facilities not be put in place by 30 June 2020, when the next set of the current amortisation payments fall due, the lenders would retain the right, under the existing loan terms, to call default on the loans, as of that date.

In addition, the Directors have indicated that there is a risk in relation to the short-term liquidity of the Group. This risk will continue to require careful management until such time as the Group's banking facilities are restructured and further access is obtained to additional working capital facilities.

In response to this, we have:

- Obtained an understanding of internal controls surrounding Management's preparation of the going concern assessment;
- Obtained and reviewed Management's cash flow projections and challenged each key assumption applied through:
  - comparing forecast day rates to signed contracts for contracted periods, and challenging the basis adopted for day rates elsewhere in the calculations;
  - performing retrospective analysis of Management's historic budgeting accuracy and comparing historical forecast revenues and costs to actuals;
  - making enquiries of Management as to their knowledge of events or conditions and related business risks beyond the period of assessment used by Management (one year from expected approval date for the year end 2019 accounts) that may cast significant doubt on the Group's ability to continue as a going concern, specifically in relation to COVID-19 and the recent drop in oil price and the resulting risks to the Group in relation to customer liquidity and pricing pressures that might arise as a result of these circumstances;
  - challenging the downside and stress test scenarios prepared by Management in order to assess the reasonableness of the assumptions included;
  - challenging commercial Management regarding the status of the contract pipeline and the likelihood and timing of awards; and
  - performing our own independent reasonable worst case scenario using tailored assumptions in order to assess the Group's ability to remain cash positive under these assumptions both in the pre and post refinancing periods.

- Tested the mechanical accuracy of the cash flow model used by Management to prepare their forecasts;
- Determined whether the cash flow projections are consistent with those used in Management's impairment assessment and sought to understand any differences;
- Gained an understanding of any mitigating actions planned by Management, and assessed their feasibility in relation to future liquidity exposures;
- Engaged in discussions with the Group's external advisors in order to verify Management's position with regards to the ongoing negotiations with the lenders in relation to the amend and extend agreement and draft term sheet;
- Obtained and reviewed the waiver granted on 31 March 2020 in respect of the covenants as at the 31 December 2019 test date and the 31 March 2020 amortisation payment;
- Reviewed the covenants included in the draft term sheet and assessed the Group's ability to comply with these at the 31 December 2020 test date under both the base case and downside scenarios;
- Reviewed communications between Management and the lenders and verified this information through discussions with external advisors;
- Obtained and reviewed the independent business review prepared by the lenders' financial advisors in respect of the Group's business case and the associated impact on the Group's ability to continue as a going concern;
- Considered the existence of any contradictory evidence in relation to Management's assumptions of contract success through challenge of non-finance personnel, review of analyst reports, and discussions with brokers;
- Performed a detailed review of the related disclosures in the Annual Report, including Management's proposed mitigating actions; and
- Assessed the Board's consideration of the impact of the possible offer to acquire the issued share capital of the Company that has been received on 26 April 2020 as part of their overall assessment of the adoption of a going concern basis of preparation and nature of the material uncertainties disclosed in the consolidated and parent Company financial statements.

As stated in Note 3 to the consolidated financial statements and Note 2 to the parent Company financial statements, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's and the parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

4. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Going concern (see material uncertainty relation to going concern section above); • Impairment of the Group's vessels; and • Revenue recognition The key audit matters included within our report are consistent with those included in our 2018 audit report. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was US$ 1.6 million which was determined on the basis of 0.5% of net assets.
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	There have been no significant changes in our audit approach since the prior year.

5. Conclusions relating to principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 20 to 25 that describe the principal risks, procedures to identify emerging risks and an explanation of how they are being managed or mitigated;
- the Directors' confirmation on page 20 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 25 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 are also required to report whether the Directors' statement relating to going concern and the prospects of the Group required by Listing Rule 9.8.6R (3) is materially inconsistent with our knowledge obtained in the audit.

Aside from the impact of the matters disclosed in the material uncertainty relating to going concern section, we confirm that we have nothing material to add or draw attention to in respect of these requirements.

6. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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. In addition to the matter described in the material uncertainty relating to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

6.1. Impairment of the Group's vessels

Key audit matter description

The Group's vessels are its sole revenue generating assets and have a carrying value of US$ 662.7 million at 31 December 2019 (2018: US$ 732.6 million). 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 on a vessel by vessel basis. Although average vessel utilisation levels have improved in 2019 compared to 2018, there has been no equivalent recovery in average day rates across the fleet and the Group has experienced a decrease in average day rates since the prior year, particularly in relation to the E-Class vessels. There is therefore a risk that recoverable amounts could be adversely impacted by these decreased rates. We have also considered there to be a potential entity level impairment indicator due to the Company's market capitalisation being significantly lower than the Group's net asset position as at 31 December 2019. Due to the high level of judgements involved, we have also determined that there is the potential for Management bias through possible manipulation of the assumptions used in the value in use calculations and the resulting recoverable amount.

Management has assessed the recoverable amount for all operating vessels based on the estimated value in use of each vessel, which in all cases was higher than fair value less costs to sell and have subsequently recognised impairments on two of the Group's vessels, Endeavour and Evolution, for US$ 23m and US$ 31.5m. The key assumptions utilised in these calculations include, on a vessel by vessel basis:

- forecast utilisation to the end of each vessel's useful economic life;
- forecast day rates to the end of each vessel's useful economic life;
- cost assumptions to the end of each vessel's useful economic life; and
- discount rate.

The Group has also recognised an impairment charge of US$ 1.7 million on a non-operating vessel, Naashi, to reduce its carrying amount to its estimated recoverable amount, being its fair value less cost to dispose, of US$ 0.3 million. The vessel is classified as a current asset held for sale as at 31 December 2019 and has subsequently been disposed of.

As referenced in Note 4 of the financial statements the carrying value of the Group's vessels under IAS 36 is considered by Management as a critical accounting judgement and key source of estimation uncertainty. Further details of the Group's vessels is provided in Note 5 to the financial statements and in the Audit and Risk Committee Report on page 43.

How the scope of our audit responded to the key audit matter	We responded to the key audit matter by performing the following procedures: • Obtained an understanding of internal controls surrounding the impairment process, including Management's preparation of the discounted cash flow model, calculation of discount rate to be applied and assessment of the impairment judgements; • Obtained and reviewed Management's value in use calculations and challenged each key assumption applied in the discounted cash flow through: – comparing forecast utilisation and day rates to those achieved on recent contracts and historically at different oil price levels, together with a consideration of the latest oil price outlook as at 31 December 2019; – comparing forecast day rates to signed contracts for contracted periods, and challenging the basis adopted for day rates elsewhere in the calculations; – challenging Management on assumptions in relation to realising contract options and further work to win; – using our internal valuation specialists to perform an independent recalculation of the discount rate and determine a reasonable range of discount rates; – comparing the forecasted operating expenditure per vessel to historical actuals in order to assess their reasonableness; – obtaining an understanding of post-year end negotiations and agreements through discussions with commercial Management; and – challenging the appropriateness of Management's sensitivity analysis, which was performed using a tiered approach and assumes a 10% revenue reduction for the first 10 years, reducing to 7.5% for the next five years followed by a reduction of 5% for the remaining useful economic life of each vessel. • Tested the mechanical accuracy of the discounted cash flow model; • Assessed Management's forecasting accuracy by performing a retrospective comparison of forecasted versus actual results; • Considered the existence of any contradictory evidence in relation to Management's utilisation, day rate and discount rate assumptions through challenge of non-finance personnel, review of analyst reports and discussions with brokers; • Identified a shortfall between the market capitalisation and net assets, understood the reasoning for this and challenged the key valuation assumptions selected to ensure that they are robust versus any implied external market views; and • Reviewed the disclosures in the Annual Report in relation to impairment to ensure these are adequate and appropriate by reference to the relevant accounting standards.
Key observations	We note that Management's day rate and utilisation assumptions demonstrate a degree of optimism, however we do not consider them to be unreasonable and overall consider the assumptions to fall within an acceptable range. We have also noted that the operating expenses assumed in the value in use calculations are considered to be reasonable for the purposes of the impairment review. In addition to this, we have determined that the Group have applied an appropriate pre-tax nominal discount rate to the future cash flows. We concur with the impairments booked on two of the Group's operating vessels, Endeavour and Evolution for US$ 23m and US$ 31.5m respectively, based on Management's value in use calculations for each of these vessels and the impairment recognised in respect of the Naashi of US$ 1.7m based on fair value less costs to dispose. We also concur with Management's conclusion that impairments were not required on any of the remaining vessels as at 31 December 2019. We have considered the disclosures made in relation to impairment to be appropriate and have noted that Management have included disclosure of the downside sensitivity analysis performed over the value in use analysis and the outcomes of this.

6.2. Revenue recognition

Key audit matter 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, revenue is recognised over the term of the contract for certain performance obligations such as mobilisation, and at a point in time for other performance obligations such as lump-sum fees received for equipment moves (and related costs) as part of demobilising a vessel. Accordingly, in order for revenue to be recorded appropriately, for each vessel Management is required to: • accurately record the number of days both on hire and on standby (to achieve 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 there is an appropriate process for reviewing all contracts in place to ensure contractual terms are accounted for in line with both the lessor accounting requirements of IAS 17 and the revenue recognition principles of IFRS 15. 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 matter. We have also presumed that a risk of fraud in revenue recognition exists as required by ISA 240. Further details of revenue generated in the year are provided in Note 33 to the financial statements.
How the scope of our audit responded to the key audit matter	In responding to the revenue recognition risk we have performed the following procedures: • Obtained an understanding of relevant controls, such as the review and approval by operational management of invoices prior to issuance. We have subsequently tested and relied on these controls to address the risk of inappropriate revenue recognition; • Agreed the day rate to the underlying contracts; • Performed an analytical review of charter hire revenue on the number of days on hire/standby and obtained supporting explanations for any gaps and reconciled this to our knowledge of each vessel's operational performance during the period; • 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 by agreeing the dates of mobilisation and any amounts to be deferred; and • Recalculated the deferred revenue in respect of mobilisation revenue by agreeing mobilisation income to contract and apportioning according to the life of the firm period of the contract.
Key observations	We are satisfied that revenue has been recorded in accordance with the terms of the underlying contracts and the Group's accounting policies in this area.

7. Our application of materiality

7.1. 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 and Parent financial statements
Materiality	US$ 1.6 million (2018: US$ 2.1 million)
Basis for determining materiality	0.5% of net assets (2018: 0.5% of net assets) Parent Company: 1% of net assets, capped at the materiality applied to the consolidated financial statements, which equates to 0.3% of the parent Company's net assets.
Rationale for the benchmark applied	Net assets is considered to be an appropriate benchmark based on the fact that the current losses recognised by the Group are not indicative of long term value and is a key measure for users of the financial statements given the asset-based nature of the business. In addition to this primary metric, we have also taken into consideration a number of other factors, noting that US$ 1.6 million represents 3.3% of adjusted earnings before interest, tax, depreciation, and amortisation ("EBITDA"). For the parent Company, as the primary nature of this holding company is to hold investments in subsidiaries, we have concluded that net assets represents the most appropriate benchmark.

7.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

a. the quality of the control environment and whether we were able to rely on controls, noting that controls reliance is only taken over the revenue process;
b. degree of centralisation and common controls/processes;
c. significant control deficiencies or other controls findings raised in prior periods;
d. high turnover of management or key accounting personnel, noting a number of changes to Management in the current year including the Chief Financial Officer, Chief Executive Officer, and Audit and Risk Committee Chair;
e. higher fraud risk or engagement risk;
f. the history of uncorrected misstatements.

7.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of US$ 83,000 (2018: US$ 105,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

8. An overview of the scope of our audit

8.1. Identification and scoping of components

We have identified the Group's business to be a single component based on our understanding of the Group and its environment, including Group-wide controls, and our assessment of the risks of material misstatement at the Group level. Therefore all operations of the Group were subject to a full scope audit.

8.2. Our consideration of the control environment

- We have not taken controls reliance over automated IT controls in the current year which is consistent with the prior year, however we have engaged IT specialists to obtain an understanding of general IT controls in the period.
- We have also tested the controls over the revenue recognition process and have therefore taken controls reliance over revenue.

8.3. Working with other auditors

During the course of the audit, the UK audit team, including the Senior Statutory Auditor, supervised the members of the Group audit team who are based in the United Arab Emirates ("UAE") through detailed review of their work for compliance with auditing standards throughout the planning and execution of the audit. The UK audit team held regular calls and meetings with both Management and the Group audit team in the UAE throughout the audit process, and visited the UAE operations during both the interim and completion stages of the audit.

9. Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit and Risk Committee reporting* – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

10. Responsibilities of Directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

11. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

12. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

12.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of Management and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including valuations and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. We have also made specific considerations to the potential heightened fraud risk in light of COVID-19. We have considered the enhanced risk factors that have arisen as a result of COVID-19 in relation to pressures, rationalisation, and opportunity and have demonstrated professional scepticism throughout all audit procedures and enquiries.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: impairment of the Group's vessels and revenue recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and the Listing Rules. We also considered whether there were any laws and regulations that had a fundamental effect on the operations of the Group.

12.2. Audit response to risks identified

As a result of performing the above, we identified impairment of the Group's vessels and revenue recognition as key audit matters related to the risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of Management and the Audit and Risk Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports; and
- in addressing the risk of fraud through Management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- 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 Group and the parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

14. Matters on which we are required to report by exception

14.1. 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.

14.2. 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 in respect of these matters.

15. Other matters

15.1. Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed by the Company's Audit and Risk Committee on 14 March 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 December 2014 to 31 December 2019.

Consistency of the audit report with the additional report to the Audit and Risk Committee

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

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.

Graham Hollis, ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Aberdeen
30 April 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

AS AT 31 DECEMBER 2019

	Notes	2019 US$'000	2018 US$'000
Revenue	30,33	**108,721**	123,335
Cost of sales		**(74,570)**	(76,317)
Impairment	5	**(59,125)**	–
Gross (loss)/ profit		**(24,974)**	47,018
General and administrative expenses		**(17,788)**	(18,556)
Restructuring costs	34	**(6,322)**	–
Finance income	35	**16**	22
Finance expense	36	**(32,063)**	(31,301)
Other income		**543**	146
Foreign exchange (loss)/gain, net	37	**(1,181)**	266
Loss for the year before taxation		**(81,769)**	(2,405)
Taxation charge for the year	8	**(3,696)**	(2,698)
Loss for the year	37	**(85,465)**	(5,103)
Other comprehensive expense – items that may be reclassified to profit or loss:			
Net (loss)/gain on cash flow hedges	10	**(165)**	685
Net change in cost of hedging	10	**(1,337)**	(923)
Exchange differences on translating foreign operations		**164**	(615)
Total comprehensive loss for the year		**(86,803)**	(5,956)
Loss attributable to:			
Owners of the Company		**(85,778)**	(6,126)
Non–controlling interests	19	**313**	1,023
		(85,465)	(5,103)
Total comprehensive loss attributable to:			
Owners of the Company		**(87,116)**	(6,979)
Non–controlling interests	19	**313**	1,023
		(86,803)	(5,956)
Loss per share:			
Basic (cents per share)	32	**(24.48)**	(1.75)
Diluted (cents per share)	32	**(24.48)**	(1.75)

All results are derived from continuing operations in each year.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 US$'000	2018 US$'000
ASSETS			
Non–current assets			
Property, plant and equipment	5	**714,234**	798,595
Dry docking expenditure	6	**5,454**	2,401
Right–of–use assets	7	**2,644**	–
Deferred tax asset	8	**–**	1,866
Total non–current assets		**722,332**	802,862
Current assets			
Trade and other receivables	9	**39,185**	40,919
Derivative financial instruments	10	**–**	543
Cash and cash equivalents	11	**8,404**	11,046
Vessel held for sale	12	**300**	–
Total current assets		**47,889**	52,508
Total assets		**770,221**	855,370
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	**58,057**	57,992
Share premium account	13	**93,080**	93,080
Restricted reserve	14	**272**	272
Group restructuring reserve	15	**(49,710)**	(49,710)
Share option reserve	16	**3,572**	3,410
Capital contribution	17	**9,177**	9,177
Cash flow hedge reserve	10	**520**	685
Cost of hedging reserve	10	**(2,260)**	(923)
Translation reserve	18	**(2,420)**	(2,584)
Retained earnings	18	**217,724**	303,319
Attributable to the Owners of the Company		**328,012**	414,718
Non–controlling interests	19	**1,659**	1,346
Total equity		**329,671**	416,064
Current liabilities			
Trade and other payables	21	**31,785**	18,833
Current tax liability		**4,289**	5,442
Bank borrowings – scheduled repayments within one year	22	**89,284**	20,338
Bank borrowings – scheduled repayments more than one year	22	**309,218**	391,177
Lease liabilities	23	**1,954**	–
Derivative financial instruments	10	**1,740**	781
Total current liabilities		**438,270**	436,571
Non–current liabilities			
Provision for employees' end of service benefits	20	**2,280**	2,722
Deferred tax liability		**–**	13
Total non–current liabilities		**2,280**	2,735
Total liabilities		**440,550**	439,306
Total equity and liabilities		**770,221**	855,370

The financial statements were approved by the Board of Directors and authorised for issue on 30 April 2020. They were signed on its behalf by:

Tim Summers
Interim Executive Chairman

Stephen Kersley
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital US$'000	Share premium account US$'000	Restricted reserve US$'000	Group restructuring reserve US$'000	Share option reserve US$'000	Capital contribution US$'000	Cash flow hedge reserve US$'000	Cost of hedging reserve US$'000	Translation reserve US$'000	Retained earnings US$'000	Attributable to the Owners of the Company US$'000	Non–controlling interests US$'000	Total equity US$'000
At 1 January 2018	57,957	93,075	272	(49,710)	2,465	9,177	–	–	(1,969)	309,445	420,712	598	421,310
Total comprehensive loss	–	–	–	–	–	–	685	(923)	(615)	(6,126)	(6,979)	1,023	(5,956)
Share options rights charge (Note 28)	–	–	–	–	985	–	–	–	–	–	985	–	985
Shares issued under LTIP schemes (Note 13)	35	5	–	–	(40)	–	–	–	–	–	–	–	–
Dividends declared during the year (Note 29)	–	–	–	–	–	–	–	–	–	–	–	(275)	(275)
At 31 December 2018 as previously reported	57,992	93,080	272	(49,710)	3,410	9,177	685	(923)	(2,584)	303,319	414,718	1,346	416,064
Adjustment on adoption of IFRS 16	–	–	–	–	–	–	–	–	–	183	183	–	183
At 1 January 2019 amended	57,992	93,080	272	(49,710)	3,410	9,177	685	(923)	(2,584)	303,502	414,901	1,346	416,247
Total comprehensive loss	–	–	–	–	–	–	(165)	(1,337)	164	(85,778)	(87,116)	313	(86,803)
Share options rights charge (Note 28)	–	–	–	–	227	–	–	–	–	–	227	–	227
Shares issued under LTIP schemes (Note 13)	65	–	–	–	(65)	–	–	–	–	–	–	–	–
Dividends declared during the year (Note 29)	–	–	–	–	–	–	–	–	–	–	–	–	–
At 31 December 2019	**58,057**	**93,080**	**272**	**(49,710)**	**3,572**	**9,177**	**520**	**(2,260)**	**(2,420)**	**217,724**	**328,012**	**1,659**	**329,671**

Refer to Note 13 to 19 for description of each reserve.

The attached Notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 US$'000	2018 US$'000
Net cash generated from operating activities	38	**51,344**	28,876
Investing activities			
Payments for property, plant and equipment		**(4,641)**	(21,190)
Proceeds from disposal of property, plant and equipment		**14**	80
Dry docking expenditure incurred		**(4,813)**	(1,890)
Interest received		**16**	22
Net cash used in investing activities		**(9,424)**	(22,978)
Financing activities			
Bank borrowings received		**5,000**	20,000
Repayment of bank borrowings		**(18,329)**	(20,653)
Principal elements of lease payments		**(3,433)**	–
Payment of issue cost on bank borrowings		**(92)**	(796)
Interest paid		**(27,708)**	(32,357)
Net cash used in financing activities		**(44,562)**	(33,806)
Net decrease in cash and cash equivalents		**(2,642)**	(27,908)
Cash and cash equivalents at the beginning of the year		**11,046**	38,954
Cash and cash equivalents at the end of the year	11	**8,404**	11,046
Non – cash transactions			
Shares issued under LTIP schemes	13	**65**	35

The attached Notes 1 to 39 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

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

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 consolidated annual financial statements for the year ended 31 December 2018, except for the adoption of new standards and interpretations effective as at 1 January 2019.

New and amended IFRS Standards that are effective for the current year
In the current year, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for certain short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor. Details of these new requirements are described in Note 3. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Group is 1 January 2019. The Group has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard, consequently comparative information has not been restated. Instead, the cumulative effect of applying the standard is recognised as an adjustment to the opening balance of retained earnings at the date of initial application.

Impact of the new definition of a lease
The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before 1 January 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4. The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting
Former operating leases
IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:
a) recognises right-of-use assets and lease liabilities in the statement of consolidated financial position, initially measured at the present value of future lease payments;
b) recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss; and
c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Former finance leases
The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

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

Financial impact of the initial application of IFRS 16

Group as a lessee

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and leases liabilities for property leases, communication hardware and certain operating equipment. It resulted in a decrease in rent expense and an increase in depreciation and amortisation expense and in interest expense. The tables below show the amount of adjustment for each consolidated financial statement line item affected by the application of IFRS 16 for the year 31 December 2019.

Impact on consolidated statement of profit or loss

	2019 US$'000
Increase in amortisation expense	(2,523)
Increase in finance costs – net	(284)
Decrease in rental expense	3,361
Net increase in profit or loss	**554**

Impact on consolidated statement of financial position at 1 January 2019

	As previously reported US$'000	Adjustment	As adjusted US$'000
Right-of-use assets	–	6,122	6,122
Lease liabilities	–	(5,939)	(5,939)
Retained earnings	(303,319)	(183)	(303,502)

Impact on consolidated statement of cash flows

The application of IFRS 16 has an impact on the consolidated statement of cash flows of the Group.

Under IFRS 16, lessees must present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of a lease liability as financing activities; and
- Cash payments for the principal portion for a lease liability, as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by US$ 2.8 million, being the lease payments, and net cash used in financing activities has increased by the same amount. The adoption of IFRS 16 did not have an impact on net cash flows.

	2019 US$'000
Interest on finance leases	284
Net cash used in operating activities	**284**
Interest paid on lease liabilities	(284)
Payment of principal portion of lease liabilities	(3,433)
Net cash used in operating and financing activities	**(3,717)**

The off-balance sheet lease obligations as of 31 December 2018 are reconciled as following to the recognised lease liabilities as of 1 January 2019.

	US$'000
Operating lease commitments as at 31 December 2018	**4,921**
Add: finance lease liabilities recognised as at 31 December 2018	1,442
Discounted using the lessee's incremental borrowing rate at the date of initial application	(424)
Lease liability recognised as at 1 January 2019	**5,939**
Of which are:	
Current lease liabilities	3,448
Non-current lease liabilities	2,491
	5,939

The Group has adopted IFRS 16 and selected a modified retrospective approach, which has no material impact on the year ended 31 December 2018. The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2019. The lease liability was initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the Group's incremental borrowing rate of 7.1%.

The Group has certain leases of staff accommodation with lease term of 12 months or less and with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. During the year ended 31 December 2019, lease expense recognised for short term leases and leases of low value amounts to US$ 0.5 million. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application, nor are there. The Group also has certain leases for operating equipment, linked to the commercial contract they are required for. The Group has elected not to apply the short term lease recognition exemption for this class of equipment if the associated commercial contract is less than 12 months.

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	Effective for annual periods beginning on or after
Amendments to IFRS 9 *Prepayment Features with Negative Compensation and Modification of financial liabilities* The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the Solely Payment of Principal and Interest ("SPPI") condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.	1 January 2019
Annual Improvements to IFRSs 2015-2017 *Cycle Amendments to IFRS 3 Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs* The Annual Improvements include amendments to four Standards.	1 January 2019
IAS 12 *Income Taxes* The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.	1 January 2019
IAS 23 *Borrowing costs* The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.	1 January 2019
IFRS 3 *Business Combinations* The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including re-measuring its previously held interest ("PHI") in the joint operation at fair value. The PHI to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments* The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: Whether tax treatments should be considered collectively; Assumptions for taxation authorities' examinations; The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and The effect of changes in facts and circumstances.	1 January 2019

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

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
Definition of Material – Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose consolidated financial statements make on the basis of those consolidated financial statements, which provide financial information about a specific reporting entity.'	1 January 2020
Definition of a Business – Amendments to IFRS 3 *Business Combinations* The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.	1 January 2020
Amendments to *References to the Conceptual Framework in IFRS Standards* Amendments to References to the Conceptual Framework in IFRS Standards related IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020
IFRS 7 Financial Instruments: Disclosures and IFRS 9 – Financial Instruments Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2020
IFRS 17 *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as at January 1, 2022.	1 January 2021
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the consolidated financial statements of the Group in the period of initial application.

3 Significant accounting policies

The Group's significant accounting policies adopted in the preparation of these financial statements are set out below. Except as noted in Note 2, 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 certain 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.

Going concern

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

The Group had committed credit facilities in place at 31 December 2019 (see Note 22), comprising an existing Term Loan facility with a balance of US$ 373.5 million and a Cash Working Capital Facility of US$ 25.0 million which was fully drawn.

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

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

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

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

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

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

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

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

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

This matter is further discussed in the Group's Long Term Viability Statement on page 25.

Seafox International Limited has announced that it made a non-binding proposal to the Board of GMS on 26 April 2020 (see Note 39 for details). The Board has considered the existence of the Proposal in its assessment of going concern and has concluded that it neither alters the nature of the material uncertainties, nor the Board's conclusion in respect of the adoption of the going concern basis in these consolidated financial statements.

3 Significant accounting policies (continued)

Basis of consolidation

These financial statements incorporate the financial statements of GMS and subsidiaries controlled by GMS. 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.

Details of GMS's subsidiaries at 31 December 2019 and 2018 are as follows:

			Proportion of Ownership Interest		
Name	**Place of Registration**	**Registered Address**	**2019**	2018	**Type of Activity**
Gulf Marine Services W.L.L.	United Arab Emirates	MN1 Mussafah Base, Mussafah Industrial Area Abu Dhabi, P.O. Box 46046 United Arab Emirates	**100%**	100%	Marine Contractors
Gulf Marine Services W.L.L. – Qatar Branch	United Arab Emirates	MN1 Mussafah Base, Mussafah Industrial Area Abu Dhabi, P.O. Box 46046 United Arab Emirates	**100%**	100%	Marine Contractor
GMS Global Commercial Invt LLC	United Arab Emirates	Al Mariah Island, Al Sowwa Square, Abu Dhabi United Arab Emirates	**100%**	100%	General Investment
Gulf 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
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 LLC	Qatar	Qatar Financial Centre, Doha	**100%**	100%	Marine Contractor
Gulf Marine Services (UK) Limited	United Kingdom	c/o MacKinnon's, 14 Carden Place, Aberdeen, AB10 1UR	**100%**	100%	Operator of offshore barges
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
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%	Special Purpose Vehicle (Dormant)
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"

Name	Place of Registration	Registered Address	Proportion of Ownership Interest 2019	2018	Type of Activity
Offshore Maritime Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of “Helios” – Dormant
Offshore Tugboat Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of “Atlas” – Dormant
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”
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 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%**	100%	Owner of Barge “Pepper”
GMS Evolution Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge “Evolution”
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 (Asia) Pte. Ltd.	Singapore	1 Scotts Road, #21-07, Shaw Centre, Singapore, 228208	**100%**	100%	Operator of offshore barges

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.

3 Significant accounting policies (continued)

Basis of consolidation (continued)

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 Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Revenue recognition

The Group recognises revenue from contracts with customers as follows:
- Charter revenue;
- Contract mobilisation revenue;
- Revenue from messing and accommodation services;
- Contract demobilisation revenue;
- Maintenance income; and
- Sundry income.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a service to a customer.

The following performance obligations exist which are either recognised over time or at a point in time.

Revenue recognised over time

Performance obligation 1 – Charter revenue, contract mobilisation revenue, revenue from messing and accommodation services

Chartering of vessels, mobilisations and messing and accommodation services are considered to be a combined performance obligation as they are not considered separately identifiable and the Group's clients cannot benefit from these services on their own or together with other readily available resources. This performance obligation being the service element of client contracts, is separate from the underlying lease component contained within client contracts, recognised separately under IAS 17.

Charter revenue

Revenue from charter of vessels is recognised as the services are rendered over time, 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 from the hire of equipment or personnel is accounted for on a time apportionment basis in line with the agreed contract terms.

Contract mobilisation revenue

Charter contracts generally provide for payment on a daily rate basis, and revenue is 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.

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 included in the performance obligation and are recognised as part of the transaction price, because the Group is the primary obligor in the arrangement, has discretion in supplier selection and is involved in determining product or service specifications.

Revenue from messing and accommodation services

Revenue from messing and accommodation services are 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.

Revenue recognised at a point in time

Performance obligation 2 – Contract demobilisation revenue

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.

Performance obligation 3 – 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.

Performance obligation 4 – 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.

Leases

1 January 2019 onwards

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for certain short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. Low value assets have a low value purchase price when new, typically US$ 5,000 or less, and include items such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Leases of operating equipment linked to commercial contracts are recognised to match the length of the contract even where the contract term is less than 12 months.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

3 Significant accounting policies (continued)

Leases (continued)

Lease payments included in the measurement of the lease liability comprise:
- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:
- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

During 2019, certain property leases were terminated early as part of the restructuring of the business (refer to Note 34) and accordingly the lease profile was amended. One of the leases was originally expected to be for three years (with three 12 month renewals), however at the end of the first year, the lease was not renewed. A second lease was terminated part way through the lease term. The associated provision for the remaining lease term of US$ 0.1 million is included in restructuring costs.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non lease components.

Prior to 1 January 2019

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.

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.

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 costs and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs 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.

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.

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.

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 of the vessel.

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.

Dry docking

Dry docking costs are costs of repairs and maintenance incurred on a vessel to ensure compliance with applicable regulations and to maintain certification for vessels. The cost incurred for periodical dry docking or major overhauls of the vessels are identified as a separate inherent component of the vessels. These costs depreciate on a straight-line basis over the period to the next anticipated dry docking being approximately 30 months. Costs incurred outside of the dry docking period but that relate to major works, overhaul/ services, and that would normally be carried out during the dry docking, as well as surveys, inspections and third party maintenance of the vessels are initially treated as Capital Work-in-progress ("CWIP") of the specific vessel and start depreciating at the next dry docking period. Costs associated with equipment failure are recognised in the profit and loss as incurred.

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.

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 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.

3 Significant accounting policies (continued)

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible 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.

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. The discount rate reflects risk free rates of returns as well as specific adjustments for country risk in the countries the Group operates in to determine an appropriate discount rate.

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.

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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.

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 the effect of the time value of money is material).

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.

Restructuring

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Employees’ end of service benefits

In accordance with the applicable Labour Laws of the UAE and Saudi Arabia, 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 but may be paid earlier at the discretion of the Group. 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 and Saudi Arabia 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 typically made in the year of cessation of employment of a qualifying employee but may be pre-paid. If the payment is made in the year of cessation of employment, the payment for end of service benefit will be made as a lump-sum along with the full and final settlement of the employee.

The total expense recognised in profit or loss of US$ 0.5 million (2018: US$ 0.6 million) represents end of service benefit provision made to employees in accordance with the UAE and Saudi Arabia Labour Laws.

Foreign currencies

The Group’s consolidated financial statements are presented in US Dollars (US$), which is also the functional currency of the Company. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

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 transactions entered into to hedge certain foreign currency risks; and
- 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$ 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/(loss) 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.

3 Significant accounting policies (continued)

Taxation (continued)

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

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The Group has the following financial assets: cash and cash equivalents and trade and other receivables (excluding prepayments and advances to suppliers). These financial assets are classified at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income ("OCI"), it needs to give rise to cash flows that are SPPI on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group measures financial assets at amortised cost if both of the following conditions are met:
- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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
Trade and other receivables (excluding prepayments and advances to suppliers) represent the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before the payment of the consideration is due).

Impairment of financial assets
The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL).

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The provision rates are grouped together based on days due for various customer segments that have similar loss patterns (geography, customer type and rating and coverage by letters of credit and other forms of credit insurance).

The Group had an expected credit loss provision of US$ 0.1 million as at 31 December 2019 (31 December 2018: US$ 0.1 million).

The Group considers a financial asset to move into stage 3 and be in default 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.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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.

3 Significant accounting policies (continued)

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 arrangements and the definitions of a financial liability and an equity instrument.

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
The Group's financial liabilities include trade and other payables and bank borrowings. All financial liabilities are classified at amortised cost unless they can be designated as at Fair Value Through Profit or Loss ("FVTPL").

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 contract liabilities are classified at amortised cost and are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the EIR 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 EIR method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR 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. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

Derivative financial instruments
The Group uses derivative financial instruments, such as interest rate swaps and cross currency interest rate swaps, to hedge its interest rate risks and foreign currency risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:
- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship;
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for as described below:

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

The ineffective portion relating for cash flow hedges are recognised in other operating income or other expenses.

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

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

4 Key sources of estimation uncertainty and critical accounting judgements
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 following are the critical accounting 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
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 key assumptions concerning the future, and other key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year, are outlined below.

Impairment of property, plant and equipment
In accordance with the requirements of IAS 36 – Impairment of Assets, the Group, in circumstances in which indicators of impairment are identified, performs a formal impairment assessment to 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. Indicators of impairment can either be from internal or external sources. A vessel is considered impaired if the carrying amount of the vessel exceeds its recoverable amount.

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 ship brokers on an annual basis.

In assessing value in use, the estimated future cash flows are discounted to their present value using a nominal pre-tax discount rate of 9.25% (2018: 11.5%). The discount rate reflects risk free rates of returns as well as specific adjustments for country risk in the countries the Group operates in to determine an appropriate discount rate. The projection of cash flows related to vessels is complex and requires the use of a number of estimates, the primary ones being future day rates and vessel utilisation.

The market capitalisation of the Group is currently lower than the net asset value, and market conditions in North West Europe have deteriorated in 2019. Accordingly the outcome of the impairment assessment led to an charge of US$ 59.1 million being recognised at 31 December 2019 (31 December 2018: Nil) (Note 5). As at 31 December 2019, the Group had property, plant and equipment of US$ 714.2 million (2018: US$ 798.6 million). Refer to Note 5 for sensitivity analysis.

4 Key sources of estimation uncertainty and critical accounting judgements (continued)

Key sources of estimation uncertainty (continued)

Deferred tax

As disclosed in Note 8, the Group has a deferred tax asset of US$ nil (2018: US$ 1.9 million).

A deferred tax asset arises from the difference in the accounting value of an asset and tax value of an asset pertaining to the difference in the capital allowances and depreciation or trading losses. The deferred tax asset related to trading losses from Gulf Marine Services (UK) Limited and Gulf Marine Services PLC which are expected to be utilised in the future. Deferred tax is only applicable in the UK and on vessels operating in the UK. In assessing forecasts of future profits affecting the amount recognised for a deferred tax asset, management exercises judgement. As part of the process for determining future profitability, judgements are made on utilisation of the vessels operating within the United Kingdom Continental Shelf ("UKCS"), achievable day rates and operating costs of the vessel.

In 2019, the Group relocated two E-Class vessels from the UK to the Middle East and Northern Africa (MENA) region. As a result the current year assessment was on the remaining E-Class vessel. Based on the projections of UK activity for 2020 to 2024, there are insufficient future taxable profits to justify the recognition of a deferred tax asset. A total loss of US$ 12.3 million is estimated to be carried forward as at 31 December 2019, therefore a deferred tax asset of US$ 2.3 million is unrecognised.

Restructuring costs

As disclosed in Note 34, the Group has restructuring costs of US$ 6.3 million (2018: Nil). These costs include a number of estimates of future costs primarily relating to leases and dilapidation costs, recruitment and redundancies and legal fees. These estimates are based on current information and therefore it is possible that the estimates may need to be revised.

Critical accounting judgements

The following are the critical judgements that the Directors have made in applying the Group's accounting policies that have the most significant effect in the amounts recognised in the financial statements.

Going concern

As disclosed in Note 3, the Company's Directors' have assessed the Group's financial position for a period of not less than 12 months from the date of approval of the full year results and have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future. Specifically, notwithstanding the material uncertainties in respect of going concern with regard to the need to complete binding loan documentation for the Group's restructured banking facilities and the Group's tight short-term liquidity position, the Directors' consider there to be a reasonable prospect of the documentation being completed in a timely fashion and that the Group's working capital and liquidity position can be managed. Accordingly the going concern basis of accounting in preparing the consolidated financial statements has been adopted. The impact of COVID-19 and the low oil price environment has been fully considered in making this key judgement. See Note 3 for further details.

Capitalisation of vessel costs

Management exercises judgement in assessing the extent to which costs incurred in relation to its vessel fleet, including overheads, meet the criteria for capitalisation under IFRS. Management consider whether the various project costs incurred on existing vessels meet the recognition criteria for capitalisation as per the definition in IAS 16 Property, Plant and Equipment. Management also assess the accounting treatment of the costs to ensure it is in line with the accounting policy. As per Group policy, vessel costs that meet the criteria per IAS 16 are capitalised, whereas costs not relating to vessels that are under US$ 25 thousand are expensed as incurred.

Dry docking

Dry docking costs are costs of repairs and maintenance incurred on a vessel to ensure compliance with applicable regulations and to maintain certification for vessels. Following a review of the dry docking policy, Management considers a change in accounting estimate requiring prospective application is required to be made during the year ended 31 December 2019, to better reflect the directly related drydocking expenditure, also including:

(a) Costs relating to major inspections, surveys, third party maintenance of the vessels or its components are capitalised;
(b) Costs relating to major works, overhaul/service carried out outside the drydocking period are capitalised; and
(c) Costs associated with equipment failure are recognised in the profit and loss as incurred.

These drydocking costs are identified as a separate component of the vessel. The capitalised costs are depreciated on a straight-line basis over the period to the next anticipated drydocking, being approximately 30 months. Costs that are incurred outside the drydocking period but relate to drydocking are initially treated as Capital Work-In Progress (CWIP) and start depreciating at the date of the next drydocking period. Further details of expenditure incurred is provided in Note 6. As a result of the change in the accounting estimate, an amount of a further US$ 2.7 million has been capitalised as dry docking costs, with the total expenditure for the year being US$ 5.3 million for the year ended 31 December 2019 (2018: US$ 1.9 million). The effect of the change in estimate on the future periods is impracticable to estimate and therefore has not been disclosed in these consolidated financial statements.

5 Property, plant and equipment

	Vessels US$'000	Capital work –in–progress US$'000	Land, building and improvements US$'000	Vessel spares, fitting and other equipment US$'000	Others US$'000	Total US$'000
Cost						
At 1 January 2018	909,973	10,398	10,425	48,435	3,649	982,880
Additions	–	21,356	–	–	51	21,407
Transfers	6,096	(18,989)	44	12,849	–	–
Disposals	(7,218)	–	–	(510)	–	(7,728)
At 31 December 2018	908,851	12,765	10,469	60,774	3,700	996,559
Additions	–	4,913	–	–	–	4,913
Transfers	12,438	(12,821)	19	285	79	–
Disposals	–	–	–	(37)	(49)	(86)
Write off	(1,597)	–	–	(279)	(60)	(1,936)
Reclassification to vessel held for sale (Note 12)	(35,195)	–	–	–	–	(35,195)
At 31 December 2019	**884,497**	**4,857**	**10,488**	**60,743**	**3,670**	**964,255**
Accumulated depreciation						
At 1 January 2018	161,905	–	6,194	7,180	3,101	178,380
Eliminated on disposal of assets	(7,218)	–	–	(510)	–	(7,728)
Depreciation expense (Note 37)	24,530	–	973	1,389	420	27,312
Transfers	(2,943)	–	–	2,943	–	–
At 31 December 2018	176,274	–	7,167	11,002	3,521	197,964
Eliminated on disposal of assets	–	–	–	(37)	(49)	(86)
Write off	(1,597)	–	–	(279)	(60)	(1,936)
Depreciation expense (Note 37)	25,743	–	847	3,137	122	29,849
Impairment*	56,280	2,845	–	–	–	59,125
Reclassification to vessel held for sale (Note 12)	(34,895)	–	–	–	–	(34,895)
At 31 December 2019	**221,805**	**2,845**	**8,014**	**13,823**	**3,534**	**250,021**
Carrying amount						
At 31 December 2019	**662,692**	**2,012**	**2,474**	**46,920**	**136**	**714,234**
At 31 December 2018	732,577	12,765	3,302	49,772	179	798,595

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

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

Vessels with a total net book value of US$ 662.7 million (2018: certain vessels with a net book value of US$ 679.5 million), have been mortgaged as security for the loans extended by the Group's banking syndicate (Note 22).

During the year, Naashi, a non-core vessel and the oldest in the GMS fleet at 37 years was reclassified from Vessels to a Non-current asset held for sale. A Letter of Intention was signed to sell the vessel for proceeds amounting to US$ 0.6 million. Subsequent to the year end, in January 2020 the associated mortgage was released and the sale completed. Refer to Note 12 for further details.

*Impairment

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

5 Property, plant and equipment (continued)

***Impairment** (continued)

The Group has also recognised an impairment charge of US$ 1.7 million (31 December 2018: nil) on a non-operating vessel, Naashi, to reduce its carrying amount to its estimated recoverable amount of US$ 0.3 million. The vessel has then been classified as a current asset held for sale as at 31 December 2019, refer to Note 12 for further details. An amount of US$ 2.8 million (31 December 2018: nil) has also been recognised as an impairment on capital work-in-progress. There is no impairment identified for any other vessels.

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

6 Dry docking expenditure

The movement in dry docking expenditure is summarised as follows:

	2019 US$'000	2018 US$'000
At 1 January	**2,401**	2,711
Expenditure incurred during the year	**5,328**	1,890
Amortised during the year (Note 37)	**(2,275)**	(2,200)
At 31 December	**5,454**	2,401

7 Right-of-use assets

	Buildings US$'000	**Communications equipment** US$'000	**Operating equipment** US$'000	**Total** US$'000
Cost				
On adoption of IFRS 16	2,652	–	3,470	6,122
Additions	467	251	142	860
Derecognised	(2,103)	–	–	(2,103)
At 31 December 2019	**1,016**	**251**	**3,612**	**4,879**
Accumulated amortisation				
At 1 January 2019	–	–	–	–
Amortisation for the year	1,172	7	1,712	2,891
Derecognised	(656)	–	–	(656)
At 31 December 2019	**516**	**7**	**1,712**	**2,235**
Carrying amount				
At 31 December 2019	**500**	**244**	**1,900**	**2,644**
Non–current portion	477	84	604	1,165
Current portion	23	160	1,296	1,479
Carrying value at 31 December 2019	**500**	**244**	**1,900**	**2,644**

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

As a result of restructuring the organisation (see Note 34), two property leases were terminated early. Accordingly, the associated right-of-use assets and leases have been derecognised.

8 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, and Saudi Arabia), divided by the Group's profit/(loss).

	2019 US$'000	2018 US$'000
Loss from continuing operations before tax	**(81,769)**	(2,405)
Tax at the UK corporation tax rate of 19%	**(15,536)**	(457)
Expense not deductible for tax purposes	**11,234**	–
Overseas taxes not based on profit	**1,598**	–
Increase in unrecognised deferred tax	**361**	–
Effect of different tax rates in overseas jurisdictions	**4,185**	3,155
Derecognised deferred tax asset	**1,866**	–
Prior year tax adjustment	**(12)**	–
Total tax charge	**3,696**	2,698
Split between:		
Current tax	**1,830**	3,388
Deferred tax credit	**–**	(690)
Derecognised deferred tax asset	**1,866**	–
Tax charge	**3,696**	2,698

During the year, tax on profits were 10% in Qatar (2018: 10%), 19% in the United Kingdom (2018: 19%) and 20% in Saudi Arabia (2018: 20%) applicable to the portion of profits generated outside of Saudi Arabia. The Group also incurred 2.5% Zakat tax (an obligatory tax in Islam to donate 2.5% of wealth each year) on the portion of profits generated in Saudi Arabia (2018: 2.5%).

The Group incurred 5% withholding taxes on revenue in Qatar (2018: 5%) and 5% on revenue in Saudi Arabia (2018: 5%). The withholding tax included in the current tax charge amounted to US$ 1.5 million (2018: US$ 2.5 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 or losses which arise in tax paying jurisdictions.

At the balance sheet date, the Group has unused tax losses of US$ 12.3 million (2018: US$ 11.0 million) available for offset against future profits with an indefinite expiry period. Based on the projections of the Group's activity, there are insufficient future taxable profits to justify the recognition of a deferred tax asset. On this basis the deferred tax asset has been derecognised during the year ended 31 December 2019:

	2019 US$'000	2018 US$'000
At 1 January	**1,866**	1,176
Credit arising during the year	**–**	690
Derecognised during the year	**(1.866)**	–
At 31 December	**–**	1,866

9 Trade and other receivables

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

* Accrued revenue includes a provision for doubtful debts of US$ nil (2018: US$ 0.5 million). A reversal of US$ 0.5 million has been made during the year attributable to the final settlement received from the customer.

** Prepayments and deposits include guarantee deposits of US$ 2.6 million (2018: US$ 0.6 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$ 0.2 million (2018: US$ 0.6 million). As at 31 December 2019, there were no amounts of pledged deposits (2018: US$ 0.1 million, represented an amount set aside as a guarantee for a loan repayment). The Group has no rights to access or utilise the proceeds set-aside as pledged deposits, other than for repayment of the underlying loan.

9 Trade and other receivables (continued)

Gross trade receivables, amounting to US$ 25.1 million (2018: US$ 33.0 million), have been assigned as security against the loans extended by the Group's banking syndicate (Note 22).

Trade receivables and other receivables disclosed above are classified as loans and receivables and are measured at amortised cost. Trade and other receivables are all current and management 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 standard credit period granted to customers is typically 30–60 days (2018: 30–60 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 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. For details of the calculation of expected credit losses, refer to Note 3.

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

	2019 US$'000	2018 US$'000
At 1 January	**144**	920
Provision for ECL on 31 December 2017 balances (Note 37)	**–**	31
Reversal of ECL provision during the year (Note 37)	**(30)**	63
Provision for doubtful debts (Note 37)	**14**	50
Recovery (Note 37)	**–**	(563)
Write-off	**–**	(357)
At 31 December	**128**	144

During the year the Group did not write off any receivables (2018: US$ 0.4 million).

Trade receivables are considered past due once they have passed their contracted due date.

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

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

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

Eight customers (2018: ten) account for 99% (2018: 99%) of the total trade receivables balance (see revenue by segment information in Note 30); however, credit risk is considered to be limited due to historical performance and ongoing assessments of customer credit and liquidity positions.

10 Hedging reserve and cost of hedging reserve

The disaggregation of changes of Other Comprehensive Income (OCI) by each type of reserve in equity is shown below:

	Cash flow hedge reserve US$'000	Cost of hedging reserve US$'000	Total US$'000
At 31 December 2019			
Cross currency interest rate swap	2,258	(2,260)	(2)
Interest rate swap	(1,738)	–	(1,738)
	520	**(2,260)**	**(1,740)**
At 31 December 2018			
Cross currency interest rate swap	1,466	(923)	543
Interest rate swap	(781)	–	(781)
	685	**(923)**	**(238)**

Derivative financial instruments represent level 2 value measurements as defined by the fair value hierarchy according to IFRS 13.

11 Cash and cash equivalents

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

	2019 US$'000	2018 US$'000
Presented as:		
Restricted cash included in trade and other receivables (Note 9)	**2,621**	605
Cash and cash equivalents	**8,404**	11,046
Total	**11,025**	11,651

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

12 Vessel held for sale

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

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

	2019 US$'000	2018 US$'000
Cost		
At 1 January	**–**	–
Reclassification from property, plant and equipment	**35,195**	–
At 31 December	**35,195**	–
Accumulated depreciation		
At 1 January	**–**	
Reclassification from property, plant and equipment	**34,895**	–
At 31 December	**34,895**	–
Carrying amount	**300**	–

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.

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

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

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

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

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

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

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

14 Restricted reserve

Restricted reserve of US$ 0.3 million (2018: US$ 0.3 million) 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 either of the years shown.

15 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.

16 Share option reserve

Share option reserve of US$ 3.6 million (2018: US$ 3.4 million) relates to awards granted to employees under the long-term incentive plans (Note 28). The charge of US$ 0.4 million (2018: US$ 1.0 million) in the year is included in cost of sales and, general and administrative expenses in the statement of comprehensive income.

17 Capital contribution

The capital contribution reserve is as follows:

	2019 US$'000	2018 US$'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.

18 Translation reserve and Retained earnings

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 Group.

19 Non-controlling interests

The movement in non-controlling interests is summarised as follows:

	2019 US$'000	2018 US$'000
At 1 January	**1,346**	598
Share of profit for the year	**313**	1,023
Dividends declared during the year (Note 29)	**–**	(275)
At 31 December	**1,659**	1,346

20 Provision for employees' end of service benefits

In accordance with UAE and Saudi Arabia Labour Laws, 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:

	2019 US$'000	2018 US$'000
At 1 January	**2,722**	3,188
Provided during the year	**537**	592
Paid during the year	**(979)**	(1,058)
At 31 December	**2,280**	2,722

During the year, US$ 0.1 million (2018: US$ 0.1 million) was pre-paid in relation to accrued end of service benefits to certain employees.

21 Trade and other payables

	2019 US$'000	2018 US$'000
Trade payables	**11,500**	8,900
Due to a related party (Note 24)	**136**	85
Accrued expenses	**15,749**	8,783
Deferred revenue	**3,359**	224
Dividend payable (Note 29)	**658**	658
VAT payable	**289**	–
Other payables	**94**	183
	31,785	18,833

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

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

22 Bank borrowings

Secured borrowings at amortised cost are as follows:

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

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

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

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

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

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

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

23 Lease liabilities

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

The Group also has certain leases of staff accommodation with lease term of 12 months or less and with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. During the year ended 31 December 2019, lease expense recognised for short term leases and leases of low value amounts to US$ 0.5 million. In addition, certain property leases were derecognised as part of the restructuring of the business (Note 34).

24 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 the Group and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Key management personnel:

As at 31 December 2019, there were no ordinary shares held by Directors (31 December 2018: 2,697,062 ordinary shares).

Related parties

The Group's principal subsidiaries are outlined in Note 3. The related parties comprising of the Group's major shareholders are outlined in the Directors Report on page 76. Other related party during the year:

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

Refer to Note 21 for details of the amount due to the related party.

Significant transactions with the related party during the year:

	2019 US$'000	2018 US$'000
Rentals – breathing equipment and property	**1,039**	1,295
Management fees	**–**	838

These rentals were at comparable rates obtained from third parties.

Compensation of key management personnel

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

	2019 US$'000	2018 US$'000
Short-term benefits	**2,902**	3,092
End of service benefits	**125**	106
Share based payment charge (LTIPs)	**21**	312
	3,048	3,510

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. At 31 December 2019, there were four members of key management personnel (2018: nine members).

25 Contingent liabilities

At 31 December 2019, the banks acting for Gulf Marine Services FZE, one of the subsidiaries of the Group, had issued bid bonds, performance bonds and labour guarantees amounting to US$ 17.4 million (2018: US$ 0.6 million) all of which were counter-indemnified by other subsidiaries of the Group.

26 Commitments

Capital commitments

	2019 US$'000	2018 US$'000
Contractual capital commitments	**3,582**	1,397

Capital commitments comprise mainly capital expenditure, which has been contractually agreed with suppliers for future periods for equipment or the refurbishment of existing vessels.

27 Financial instruments

Categories of financial instruments

	2019 US$'000	2018 US$'000
Financial assets:		
Derivatives designated as hedging instruments:		
Cross currency interest rate swap (Note 10)	**–**	543
Current assets at amortised cost:		
Cash and cash equivalents (Note 11)	**8,404**	11,046
Trade receivables and other receivables (Note 9,11)	**29,341**	36,671
Total financial assets	**37,745**	48,260

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

	2019 US$'000	2018 US$'000
Financial liabilities:		
Derivatives designated as hedging instruments:		
Interest rate swap (Note 10)	**1,740**	781
Financial liabilities recorded at amortised cost:		
Trade and other payables (Note 21)	**28,001**	18,609
Lease liabilities (Note 23)	**1,954**	–
Current bank borrowings – scheduled repayments within one year (Note 22)	**89,284**	20,338
Current bank borrowings – scheduled repayments more than one year (Note 22)	**309,218**	391,177
Total financial liabilities	**430,197**	430,905

As described in Note 22, total loan amounts have been presented as a current liability as the Group did not have an unconditional right at that date to defer repayment of these loans beyond twelve months.

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

Capital risk management

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

Significant accounting policies

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

Credit risk management

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

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

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

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

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, The Group manages liquidity risk by seeking to maintain sufficient facilities to ensure availability of funds for forecast and actual cash flow requirements.

The table below summarises the maturity profile of the Group's financial liabilities. The contractual maturities of the Group's financial liabilities have been determined on the basis of the remaining period at the end of the reporting period to the contractual maturity date. The maturity profile is monitored by management to assist in ensuring adequate liquidity is maintained. Refer to Going Concern in Note 3.

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

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

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

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

27 Financial instruments (continued)

Interest rate risk management

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

The Group uses an Interest Rate Swap ("IRS") to hedge a notional amount of US$ 50.0 million (2018: US$ 50.0 million). The remaining amount of notional hedged from the IRS as at 31 December 2019 was US$ 46.2 million (2018: US$ 48.7 million). The IRS hedges the risk of variability in interest payments by converting a floating rate liability to a fixed rate liability. The fair value of the IRS as at 31 December 2019 was a liability value of US$ 1.7 million (2018: US$ 0.8 million), (see Note 10 for more details).

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

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

Foreign currency risk management

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

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

During the year ended 31 December 2018, the Group entered into a Cross Currency Interest Rate Swap CCIRS to hedge a notional amount of US$ 36.7 million. As at 31 December 2019, the amount of notional hedged from the CCIRS was US$ 2.5 million (2018: US$ 22.4 million). The CCIRS hedges the volatility in GBP to USD exchange rates as well as variability in interest rate payments by converting a USD floating rate loan with USD repayments to a GBP fixed rate loan wherein both the GBP notional and coupon payments are fixed and matched to actual GBP receivables of highly probable forecast sales. The fair value of the CCIRS as at 31 December 2019 was an asset value of US$ nil (2018: US$ 0.5 million), (see Note 10 for more details).

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

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

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

28 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 page 67.

From 2019 onwards LTIPs no longer have any employment conditions. LTIPs have been aligned to the company's share performance therefore only financial metrics will be applied. The time-dependent element of the LTIPs has been removed. EPS ("Earnings Per Share") has been dropped as the financial metric and TSR ("Total Shareholder Return") is now the sole financial metric.

In the prior years, the release of these shares was 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 were 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 was 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 related 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, were 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 was based on the number of options that eventually vest. Any market vesting conditions were 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 granted by the Group during the year is given in the table below together with their weighted average exercise price ("WAEP").

	2019		2018	
	No.	**WAEP**	No.	WAEP
At the beginning of the year	**9,814,485**	**–**	5,897,948	–
Granted in the year	**3,425,775**	**–**	8,420,379	–
Exercised during the year	**(519,909)**	**–**	(263,905)	–
Forfeited in the year	**(1,424,494)**	**–**	(2,612,718)	–
Lapsed	**(2,527,563)**	**–**	(1,627,219)	–
At end of the year	**8,768,294**	**–**	9,814,485	–
Exercisable at the end of the year	**–**	**–**	–	–

The weighted average remaining contractual life for the vesting period outstanding as at 31 December 2019 was 1.9 years (2018: 1.5 years). The weighted average fair value of shares granted during the year was US$ 0.70 (2018: US$ 0.38).

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	**15 November 2019**	23 March 2018
Share price	**£0.08**	£0.37
Exercise price	**£0.00**	£0.00
Expected volatility	**102.79%**	52.89%
Risk-free rate	**0.48%**	1.04%
Expected dividend yield	**0.00%**	1.0%
Vesting period	**3 years**	3 years
Award life	**3 years**	3 years

The expected share price volatility of Gulf Marine Services PLC shares was determined taking into account the historical share price movements for a three year period up to the grant date (and of each of the companies in the comparator group).

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 16.

29 Dividends

There was no dividend declared or paid in 2019. No final dividend in respect of the year ended 31 December 2019 is to be proposed at the 2020 AGM.

During the year ended 31 December 2018, the Group declared a dividend of US$ 0.28 million to non-controlling interests. This dividend remained unpaid at 31 December 2019 (refer to Note 21).

30 Segment reporting

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

The operating and reportable segments of the Group are (i) K-Class vessels, which include the Kamikaze, Kikuyu, Kawawa, Kudeta, Keloa and Pepper vessels (ii) S-Class vessels, which include the Shamal, Scirocco and Sharqi vessels, (iii) E-Class vessels, which include the Endeavour, Endurance, Enterprise and Evolution vessels, and (iv) Other vessels, considered non-core assets, which includes one 37-year old vessel (Naashi- for further details refer to Note 12), which does not form part of the K, S or E Class vessels segments. The composition of the Other vessels segment, which are non-core assets, was amended in 2018, following the reclassification of the vessel Naashi from K-Class vessels to Other vessels. In 2019, Naashi was reclassified from Other vessels to a non-current asset held for sale, refer to Note 12 for further details. The sale was completed in January 2020.

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

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

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

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

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

Information about major customers

During the year, three customers (2018: five) individually accounted for more than 10% of the Group's revenues. The related revenue figures for these major customers, the identity of which may vary by year, were US$ 32.7 million, US$ 24.5 million and US$ 18.4 million (2018: US$ 25.2 million, US$ 23.6 million, US$ 16.7 million, US$ 14.9 million and US$ 13.2 million). The revenue from these customers is attributable to the E-Class vessels, S-Class vessels and K-Class vessels reportable segments.

Geographical segments

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

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

Impairment losses of US$ 59.1 million were recognised in respect of property, plant and equipment. These impairment losses were attributable to the following reportable segments:

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

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

31 Presentation of adjusted non-GAAP results

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

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

	Year ended 31 December 2019			Year ended 31 December 2018		
	Adjusted non-GAAP results US$'000	Adjusting items US$'000	Statutory total US$'000	Adjusted non-GAAP results US$'000	Adjusting items US$'000	Statutory total US$'000
Supplementary non-statutory information						
Operating (loss)/profit	16,363	(65,447)	(49,084)	28,462	–	28,462
Add: Depreciation and amortisation	35,012	–	35,012	29,512	–	29,512
Non-GAAP EBITDA	51,375	(65,447)	(14,072)	57,974	–	57,974

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

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

32 Loss per share

	2019	2018
Loss for the purpose of basic and diluted loss per share being loss for the year attributable to Owners of the Parent (US$'000)	**(85,778)**	(6,126)
Loss for the purpose of adjusted basic and diluted loss per share (US$'000) (Note 31)	**(20,331)**	(6,126)
Weighted average number of shares ('000)	**350,357**	349,895
Weighted average diluted number of shares in issue ('000)	**350,357**	349,895
Basic loss per share (cents)	**(24.48)**	(1.75)
Diluted loss per share (cents)	**(24.48)**	(1.75)
Adjusted loss per share (cents)	**(5.80)**	(1.75)
Adjusted diluted loss per share (cents)	**(5.80)**	(1.75)

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

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

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

Adjusted diluted loss per share is calculated on the same basis but uses adjusted loss (Note 31) attributable to equity holders of the Company.

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

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

33 Revenue

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

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

34 Restructuring costs

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

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

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

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

35 Finance income

	2019 US$'000	2018 US$'000
Bank and other income	**16**	22

36 Finance expenses

	2019 US$'000	2018 US$'000
Interest on bank borrowings	**31,366**	30,601
Interest on finance leases	**284**	–
Amortisation of issue costs and commitment fees	**413**	700
	32,063	31,301

37 Loss for the year

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

	2019 US$'000	2018 US$'000
Total staff costs (see below)	**31,657**	33,207
Depreciation of property, plant and equipment (Note 5)	**29,849**	27,312
Amortisation of dry docking expenditure (Note 6)	**2,275**	2,200
Provision for ECL on 31 December 2017 balance (Note 9)	**–**	31
Movement in ECL provision during the year (Note 9)	**(30)**	63
Provision for doubtful debts on trade receivables (Note 9)	**14**	50
Provision for doubtful debts on accrued revenue (Note 9)	**–**	530
Recovery of doubtful debts (Note 9)	**–**	(563)
Foreign exchange gain, net	**1,181**	(266)
Gain on disposal of asset	**(14)**	(6)
Operating leases rentals	**–**	2,080
Auditor's remuneration (see below)	**771**	419

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

	2019 Number	2018 Number
Middle East and Northern Africa	**426**	388
Rest of the world	**56**	107
	482	495

The total number of full time equivalent employees (including executive directors) as at 31 December 2019 was 461 (31 December 2018: 536). Their aggregate remuneration comprised:

	2019 US$'000	2018 US$'000
Wages and salaries	**30,756**	31,490
Employment taxes	**138**	140
End of service benefit (Note 20)	**537**	592
Share based payment charge (Note 28)	**226**	985
	31,657	33,207

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

	2019 US$'000	2018 US$'000
Group audit fees	**287**	248
Subsidiary audit fees	**164**	68
Total audit fees	**451**	316
Audit-related assurance services – interim review	**320**	103
Total fees	**771**	419

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.

38 Notes to the consolidated statement of cash flows

	2019 US$'000	2018 US$'000
Operating activities		
Loss for the year	**(85,465)**	(5,103)
Adjustments for:		
Depreciation of property, plant and equipment (Note 5)	**29,849**	27,312
Amortisation of dry docking expenditure (Note 6)	**2,275**	2,200
Impairment charge (Note 5)	**59,125**	–
Amortisation of IFRS 16 leases (Note 7)	**2,891**	–
Income tax expense (Note 8)	**3,696**	2,698
End of service benefits charge (Note 20)	**537**	592
End of service benefits paid (Note 20)	**(979)**	(1,058)
Provision for ECL on 31 December 2017 balances (Note 9)	**–**	31
Movement in ECL provision during the year (Note 9)	**(30)**	63
Provision for doubtful debts on trade receivables (Note 9)	**14**	50
Provision for doubtful debts on accrued revenue (Note 9)	**(530)**	530
Recovery of doubtful debts (Note 9)	**–**	(563)
Share options rights charge (Note 16)	**227**	985
Interest income (Note 35)	**(16)**	(22)
Interest expense (Note 36)	**31,366**	30,601
Interest on finance leases	**284**	–
Gain on disposal of assets	**(14)**	(6)
Unrealised forex loss	**77**	–
Other income	**(513)**	(140)
Amortisation of issue costs (Note 36)	**413**	700
Cash flow from operating activities before movement in working capital	**43,207**	58,870
Decrease/(increase) in trade and other receivables	**2,875**	(22,593)
Increase/(decrease) in trade and other payables	**8,320**	(4,821)
Cash generated from operations	**54,402**	31,456
Taxation paid	**(3,058)**	(2,580)
Net cash generated from operating activities	**51,344**	28,876

38 Notes to the consolidated statement of cash flows (continued)

Changes in liabilities arising from financing activities

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

	Bank Borrowings (Note 22) US$'000
At 1 January 2018	411,783
Financing cash flows*	(653)
Non-cash changes:	
Amortisation of discount on financial liabilities	385
At 31 December 2018	411,515
Financing cash flows*	**(13,329)**
Non-cash changes:	
Amortisation of discount on financial liabilities	**316**
At 31 December 2019	**398,502**

* The cash flows from bank borrowings and obligations under finance leases make up the net amount of repayment of bank borrowings, payment of issue costs and payment on finance leases in the statement of cash flows.

39 Events after the reporting period

Sale of Naashi

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

Refinancing update

On 31 March 2020, the Group agreed with its lenders a non-binding term sheet for the restructuring of its existing facilities. This seeks to address both covenant levels and amortisation profile going forward. It would also give the Group access to working capital and bonding facilities. In addition, the Group's banking syndicate granted GMS relief under its existing bank facilities in the form of (i) the rollover of certain loans, (ii) the waiver of applicable financial covenant tests and (iii) the deferral of the principal payments due thereunder, in each case from 31 March 2020 until 30 June 2020. Refer to Note 3 for more details.

COVID-19 and oil price

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

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

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

These consolidated financial statements were approved by the Board of Directors and authorised for issue on 30 April 2020.

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	2019 US$'000	2018 US$'000
Non-current assets			
Investments in subsidiaries	5	**573,546**	573,546
Deferred tax asset	6	**–**	575
Total non-current assets		**573,546**	574,121
Current assets			
Other receivables		**14**	21
Cash and cash equivalents		**1**	559
Total current assets		**15**	580
Total assets		**573,561**	574,701
Current liabilities			
Other payables	7	**12,998**	11,573
Net assets		**560,563**	563,128
Equity			
Share capital	8	**58,057**	57,992
Share premium account	8	**93,080**	93,080
Share option reserve	8	**3,569**	3,410
Retained earnings	8	**405,857**	408,646
Total equity		**560,563**	563,128

The Company reported a loss for the financial year ended 31 December 2019 of US$ 2.8 million (2018: US$ 2.4 million).

The financial statements of Gulf Marine Services PLC (registered number 08860816) were approved by the Board of Directors and authorised for issue on 30 April 2020.

Signed on behalf of the Board of Directors

Tim Summers
Interim Executive Chairman

Stephen Kersley
Chief Financial Officer

The attached Notes 1 to 13 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital US$'000	Share premium account US$'000	Share option reserve US$'000	Retained earnings US$'000	Total equity US$'000
At 1 January 2018	57,957	93,075	2,465	411,088	564,585
Loss for the year	–	–	–	(2,442)	(2,442)
Share options rights charge *(Note 8)*	–	–	985	–	985
Shares issued under LTIP schemes *(Note 8)*	35	5	(40)	–	–
At 31 December 2018	57,992	93,080	3,410	408,646	563,128
Loss for the year	–	–	–	(2,789)	(2,789)
Share options rights charge *(Note 8)*	–	–	224	–	224
Shares issued under LTIP schemes *(Note 8)*	65	–	(65)	–	–
At 31 December 2019	**58,057**	**93,080**	**3,569**	**405,857**	**560,563**

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 US$'000	2018 US$'000
Net cash used in operating activities	10	**(2,286)**	(1,554)
Financing activities			
Increase in intercompany payables		**1,728**	1,572
Net cash generated from financing activities		**1,728**	1,572
Net (decrease)/increase in cash and cash equivalents		**(558)**	18
Cash and cash equivalents at the beginning of the year		**559**	541
Cash and cash equivalents at the end of the year		**1**	559

The attached Notes 1 to 13 form an integral part of these financial statements.

1 Corporate information

Gulf Marine Services PLC ("the Company") 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 6th Floor, 65 Gresham Street, London, EC2V 7NQ. 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 ("Group"). The consolidated group accounts are publicly available.

These separate financial statements were approved and authorised for issue by the Board of Directors of the Company on 30 April 2020.

2 Accounting policies

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

The accounting policies and methods of computation adopted in the preparation of these financial statements are consistent with those followed in the preparation of the annual financial statements for the year ended 31 December 2018, other than as listed below.

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

The following new and revised IFRSs have been adopted in these 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	**Effective for annual periods beginning on or after**
IFRS 16 Leases (as issued by the IASB in January 2016). The standard replaces the existing guidance on leases, including IAS 17 "Leases", IFRIC 4 'Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease". IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for certain short-term leases and leases of low value asset. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Therefore, IFRS 16 does not have an impact for leases where the Company is the lessor.	1 January 2019
Amendments to IFRS 9 *Prepayment Features with Negative Compensation and Modification of financial liabilities* The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the Solely Payment of Principal and Interest ("SPPI") condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.	1 January 2019
Annual Improvements to IFRSs 2015-2017 *Cycle Amendments to IFRS 3 Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs* The Annual Improvements include amendments to four Standards.	1 January 2019
IAS 12 *Income Taxes* The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.	1 January 2019
IAS 23 *Borrowing costs* The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.	1 January 2019
IFRS 3 *Business Combinations* The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including re-measuring its previously held interest ("PHI") in the joint operation at fair value. The PHI to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.	1 January 2019

New and revised IFRSs	Effective for annual periods beginning on or after
IFRIC 23 *Uncertainty over Income Tax Treatments* The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	1 January 2019

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these 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
Definition of Material – Amendments to IAS 1 *Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose consolidated financial statements make on the basis of those consolidated financial statements, which provide financial information about a specific reporting entity.'	1 January 2020
Definition of a Business – Amendments to IFRS 3 *Business Combinations* The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.	1 January 2020
Amendments to *References to the Conceptual Framework in IFRS Standards* Amendments to References to the Conceptual Framework in IFRS Standards related IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	1 January 2020
IFRS 7 Financial Instruments: Disclosures and IFRS 9 – Financial Instruments Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2020
IFRS 17 *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as at January 1, 2022.	1 January 2021
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 Investments in *Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Company in the period of initial application.

Currency

The functional and presentational currency of the Company is US Dollars ("US$").

2 Accounting policies continued

Going concern

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

The Group had committed credit facilities in place at 31 December 2019 (see *Note 22 to the consolidated financial statements*), comprising an existing Term Loan facility with a balance of US$ 373.5 million and a Cash Working Capital Facility of US$ 25.0 million which was fully drawn.

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

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

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

The Directors consider that if the Group's debt were to be restructured in line with the proposed Term Sheet, it would address the current challenges it currently faces in being able to comply with both the covenant terms and the amortisation profile under the existing banking facilities. It would also give the Group access to working capital and bonding facilities each totalling US$ 25.0 million, which are important for GMS to conduct its business efficiently.

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

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

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

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

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

This matter is further discussed in the Group's Long Term Viability Statement on page 25.

Seafox International Limited has announced that it made a non-binding proposal to the Board of GMS on 26 April 2020 (see Note 39 for details). The Board has considered the existence of the Proposal in its assessment of going concern and has concluded that it neither alters the nature of the material uncertainties, nor the Board's conclusion in respect of the adoption of the going concern basis in these consolidated financial statements.

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$ 2.8 million (2018: loss of US$ 2.4 million).

The principal accounting policies are summarised below. They have all been applied consistently throughout the year.

Investments

Investments in subsidiaries and associates are recognised at 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 statement of financial position, 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'.

Other payables 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 rate ("EIR") 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 EIR method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR 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.

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 FVTPL account, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at FVTPL, 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification of financial assets at initial recognition depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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 and cash equivalents

Cash and cash equivalents 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.

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.

2 Accounting policies continued

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 reporting 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 reporting 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 reporting 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 or 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 Company'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 is the key sources of estimations and judgements 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

Recoverability of investments

Investments in subsidiary undertakings are included in the statement of financial position of the Company at deemed cost less any provision for impairment. The Company performs impairment reviews in respect of investments whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. In 2019 impairments totalling US$ 59.1 million were recognised on three vessels and some equipment, driven by challenging market conditions in North West Europe, the fall in share price of the Company and the intention to dispose of a non-core non-operating vessel (the Naashi). Refer to the consolidated financial statements for further details on all. These assets are held in the Company's subsidiaries. Accordingly, the investments in subsidiaries were assessed for impairment. The assessment was done by comparing the carrying value of the investments with the recoverable amount, being the value in use of the vessels held in the Group's subsidiaries less debt held in the Group. 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. The resulting recoverable amount for each investment exceeded its carrying value and therefore no impairment was recognised as at 31 December 2019, and the carrying value remained at US$ 573.5 million (2018: US$ 573.5 million).

Critical accounting judgements

Going concern

As disclosed in Note 2, the Company's Directors' have assessed the Company's financial position for a period of not less than 12 months from the date of approval of the full year results and have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Specifically, notwithstanding the material uncertainties in respect of going concern with regard to the need to complete binding loan documentation for the Group's restructured banking facilities and the Group's tight short-term liquidity position, the Directors' consider there to be a reasonable prospect of the documentation being completed in a timely fashion and that the Group's working capital and liquidity position can be managed. Accordingly the going concern basis of accounting in preparing the financial statements has been adopted. The impact of COVID-19 and the low oil price environment has been fully considered in making this key judgement.

4 Dividends

There was no interim dividend declared or paid in 2019 (2018: Nil).

No final dividend in respect of the year ended 31 December 2019 (2018: Nil at the 2019 AGM) is to be proposed at the 2020 AGM.

5 Investments in subsidiaries

	2019 US$'000	2018 US$'000
Investments in subsidiaries	**573,546**	573,546

The Company has investments in the following subsidiaries:

Name	Place of Registration	Registered Address	Proportion of Ownership Interest 2019	2018	Type of Activity
Gulf Marine Services W.L.L.	United Arab Emirates	MN1 Mussafah Base, Mussafah Industrial Area Abu Dhabi, P.O. Box 46046 United Arab Emirates	**100%**	100%	Marine Contractors
Gulf Marine Services W.L.L. – Qatar Branch	United Arab Emirates	MN1 Mussafah Base, Mussafah Industrial Area Abu Dhabi, P.O. Box 46046 United Arab Emirates	**100%**	100%	Marine Contractors
GMS Global Commercial Invt LLC	United Arab Emirates	Al Mariah Island, Al Sowwa Square, Abu Dhabi United Arab Emirates	**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
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 LLC	Qatar	Qatar Financial Centre, Doha	**100%**	100%	Marine Contractor
Gulf Marine Services (UK) Limited	United Kingdom	c/o MacKinnon's, 14 Carden Place, Aberdeen, AB10 1UR	**100%**	100%	Operator of Offshore Barges
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
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%	Special Purpose Vehicle (Dormant)
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"

5 Investments in subsidiaries continued

Name	Place of Registration	Registered Address	Proportion of Ownership Interest 2019	2018	Type of Activity
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" – Dormant
Offshore Tugboat Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of "Atlas" – Dormant
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"
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 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%**	100%	Owner of Barge "Pepper"
GMS Evolution Invt SA	Panama	Salduba Building, 53rd East Street, Urbanización Marbella Panama City, Republic of Panama	**100%**	100%	Owner of Barge "Evolution"
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 (Asia) Pte. Ltd.	Singapore	1 Scotts Road, #21-07, Shaw Centre, Singapore, 228208	**100%**	100%	Operator of Offshore Barges

* Held directly by Gulf Marine Services PLC.

6 Deferred tax asset

At the reporting date, the Company has unused tax losses of US$ 4.8 million available for offset against future profits (2018: US$ 3.4 million). A deferred tax asset arises from the difference in the accounting value of an asset and tax value of an asset pertaining to the difference in the capital allowances and depreciation or trading losses. The deferred tax asset related to trading losses from Gulf Marine Services (UK) Limited and Gulf Marine Services PLC which are expected to be utilised in the future. Deferred tax is only applicable in the UK and on vessels operating in the UK. In assessing forecasts of future profits affecting the amount recognised for a deferred tax asset, management exercises judgement. As part of the process for determining future profitability, judgements are made on utilisation of the vessels operating within the United Kingdom Continental Shelf ("UKCS"), achievable day rates and operating costs of the vessel.

In 2019, the Group relocated two E-Class vessels from the UK to the Middle East and Northern Africa (MENA) region. As a result the current year assessment was on the remaining E-Class vessel. Based on the projections of UK activity for 2020 to 2024, there are insufficient future taxable profits to justify the recognition of a deferred tax asset. On this basis the deferred tax asset has been derecognised during the year ended 31 December 2019 (2018: US$ 0.6 million).

7 Other payables

	2019 US$'000	2018 US$'000
Amounts owed to Group undertakings (Note 9)	**12,321**	10,593
Other payables	**677**	980
	12,998	11,573

The amounts outstanding are unsecured and have no special conditions attached to them. No guarantees have been given or received.

8 Share capital and reserves

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 2019			
Authorised share capital	**350,488**	**58,057**	**58,057**
Issued and fully paid	**350,488**	**58,057**	**58,057**
At 31 December 2018			
Authorised share capital	349,968	57,992	57,992
Issued and fully paid	349,968	57,992	57,992

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

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

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

The Company has one class of ordinary shares, which carry no right to fixed income.

8 Share capital and reserves (continued)

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

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

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

The share premium account contains the premium arising on issue of equity shares, net of related costs.

The Company's share option reserve of US$ 3.5 million (2018: US$ 3.4 million) relates to awards granted to employees of a subsidiary undertaking under a long-term incentive plan, details of which are provided in Note 11. The share option charge during the year was US$ 0.2 million (2018: US$ 1.0 million).

The retained earnings represent cumulative profits or losses net of dividends paid and other adjustments.

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 year 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$ 879,840 (2018: US$ 548,458).

10 Net cash used in operating activities

	2019 US$'000	2018 US$'000
Operating activities		
Loss for the year before taxation	**(2,214)**	(2,741)
Adjustment for:		
Share based payment expense	**224**	985
Cash outflow from operating activities before movement of working capital	**(1,990)**	(1,756)
Increase/(decrease) in other receivables	**7**	(2)
(Decrease)/increase in other payables	**(303)**	204
Net cash used in operating activities	**(2,286)**	(1,554)

11 Long term incentive plans

The Company 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 page 67. 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 Company 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 reporting 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 Company's subsidiaries without charge, the share option charge is capitalised as part of the cost of investment in subsidiaries.

The number of share awards granted by the Company during the year is given in the table below together with their weighted average exercise price ('WAEP').

	2019		2018	
	No.	WAEP	No.	WAEP
At the beginning of the year	**9,814,485**	**–**	5,897,948	–
Granted in the year	**3,425,775**	**–**	8,420,379	–
Exercised during the year	**(519,909)**	**–**	(263,905)	–
Forfeited in the year	**(1,424,494)**	**–**	(2,612,718)	–
Lapsed	**(2,527,563)**	**–**	(1,627,219)	–
At end of the year	**8,768,294**	**–**	9,814,485	–
Exercisable at the end of the year	**–**	**–**	–	–

The weighted average remaining contractual life for the share options outstanding as at 31 December 2019 was 1.9 years (2018: 1.5 years). The weighted average fair value of options granted during the year was US$ 0.70 (2018: US$ 0.38).

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	**15 November 2019**	23 March 2018
Share price	**£0.08**	£0.37
Exercise price	**£0.00**	£0.00
Expected volatility	**102.79%**	52.89%
Risk-free rate	**0.48%**	1.04%
Expected dividend yield	**0.00%**	1.0%
Vesting period	**3 years**	3 years
Award life	**3 years**	3 years

The expected share price volatility of Gulf Marine Services PLC shares was determined taking into account the historical share price movements for a three year period up to the grant date (and of each of the companies in the comparator group).

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 Company, 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).

12 Financial instruments (continued)

Categories of financial instruments

	2019 US$'000	2018 US$'000
Financial assets:		
Financial assets at amortised cost:		
Other receivables	**14**	21
Cash and cash equivalents	**1**	559
Total financial assets	**15**	580

	2019 US$'000	2018 US$'000
Financial liabilities:		
Financial liabilities at amortised cost:		
Other payables (Note 7)	**12,998**	11,573
Total financial liabilities	**12,998**	11,573

All financial liabilities are repayable upon demand.

Financial risk management objectives and policies

The Group/Company has considered the risks arising from Brexit on amounts presented in these financial statements. From 2020 there is one vessel operating in North West Europe and no UK-based employees or operations, therefore the exposure is not considered to be significant. 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 counterparty will default on its contractual obligations resulting in financial loss to the Company, and arises principally from the Company's 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 counterparties, 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 counterparties failing to perform their obligations generally approximates their carrying value. 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. For receivables, the Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime expected credit loss (ECL). There is no ECL required as at 31 December 2019.

Cash flow and liquidity risk

The Company does not have significant cash flow or liquidity risk, however is exposed to the liquidity risk of the Group, especially as current liabilities exceed current assets by US$ 12,983k and the liabilities are predominantly amounts owed to members of the Group. The Group's liquidity challenges are outlined in Note 2.

Foreign currency risk management

The majority of the Company's transactions are in either UAE Dirhams or US$. 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.

13 Events after the reporting period

Sale of Naashi

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

Refinancing update

On 31 March 2020, the Group agreed with its lenders a non-binding term sheet for the restructuring of its existing facilities. This seeks to address both covenant levels and amortisation profile going forward. It would also give the Group access to working capital and bonding facilities. In addition, the Group's banking syndicate granted GMS relief under its existing bank facilities in the form of (i) the rollover of certain loans, (ii) the waiver of applicable financial covenant tests and (iii) the deferral of the principal payments due thereunder, in each case from 31 March 2020 until 30 June 2020. Refer to Note 3 for more details.

COVID-19 and oil price

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

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

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

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

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

Adjusted diluted loss per share – represents the adjusted (loss)/profit attributable to equity holders of the Company for the period divided by the weighted average number of ordinary shares in issue during the period, adjusted for the weighted average effect of share options outstanding during the period. The adjusted loss attributable to equity shareholders of the Company is earnings used for the purpose of basic loss per share adjusted by adding back impairment charges and restructuring costs in 2019. This measure provides additional information regarding earnings per share attributable to the underlying activities of the business. A reconciliation of this measure is provided in Note 31.

Adjusted EBITDA – represents operating loss after adding back depreciation and amortisation, impairment charges and restructuring costs in 2019. This measure provides additional information in assessing the Group's underlying performance that management is more directly able to influence in the short term and on a basis comparable from year to year. A reconciliation of this measure is provided in Note 30.

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

Adjusted gross profit/(loss) – represents gross profit after adding back impairment charges in 2019. This measure provides additional information on the core profitability of the Group. A reconciliation of this measure is provided in Note 30.

Adjusted net loss – represents net loss after adding back impairment charges and restructuring costs in 2019. This measure provides additional information in assessing the Group's total performance that management is more directly able to influence and on a basis comparable from year to year. A reconciliation of this measure is provided in Note 31 of these results.

EBITDA – represents Earnings before Interest, Tax, Depreciation and Amortisation, which represents operating profit after adding back depreciation and amortisation in 2019. This measure provides additional information of the underlying operating performance of the Group. A reconciliation of this measure is provided in Note 31.

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

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

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

Segment adjusted gross profit/loss – represents gross profit/loss after adding back depreciation, amortisation and impairment charges in 2019. This measure provides additional information on the core profitability of the Group attributable to each reporting segment. A reconciliation of this measure is provided in Note 5.

OTHER DEFINITIONS

Backlog	represents firm contracts and extension options held by clients. Backlog equals (charter day rate x remaining days contracted) + ((estimated average Persons On Board x daily messing rate) x remaining days contracted) + contracted remaining unbilled mobilisation and demobilisation fees. Includes extension options.
Borrowing rate	LIBOR plus margin.
Calendar days	takes base days at 365 and only excludes periods of time for construction and delivery time for newly constructed vessels.
Costs capitalised	represent qualifying costs that are capitalised as part of a cost of the vessel rather than being expensed as they meet the recognition criteria of IAS 16 Property, Plant and Equipment.
EPC	engineering, procurement and construction.
Finance Service Cover	represents the ratio of Adjusted EBITDA to Finance Service (being Net finance charges plus scheduled repayments plus capital payments for finance leases adjusted for voluntary or mandatory prepayments), in respect of that relevant period.
Interest Cover	represents the ratio of Adjusted EBITDA to Net finance charges.
IOC	Independent Oil Company.
LTIR	the lost time injury rate per 200,000 man hours which is a measure of the frequency of injuries requiring employee absence from work for a period of one or more days.
LIBOR	London Interbank Offered Rate.
Net finance charges	represents finance charges for that period less interest income for that period.
Net leverage ratio	represents the ratio of net bank debt to Adjusted EBITDA.
Net cash flow before debt service	the sum of cash generated from operations and investing activities.
NOC	National Oil Company.
OSW	Offshore Wind.
Proforma EBITDA	represents EBITDA for covenant testing purposes being EBITDA (see definition above) for the trailing 12 months plus EBITDA contribution from new contracts, of at least six months in duration that commence during a covenant testing period, with the EBITDA contribution from these contracts annualised (unless contract duration is less than 12 months when total contract EBITDA contribution is applied).
Security Cover (loan to value)	the ratio (expressed as a percentage) of Total Net Debt at that time to the Market Value of the Secured Vessels.
Total Recordable Injury Rate (TRIR)	calculated on the injury rate per 200,000 man hours and includes all our onshore and offshore personnel and subcontracted personnel. Offshore personnel are monitored over a 24-hour period.
Utilisation	the percentage of calendar days in a relevant period during which an SESV is under contract and in respect of which a customer is paying a day rate for the charter of the SESV.

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