MMA OFFSHORE LIMITED

HALF YEAR FINANCIAL REPORT – 31 DECEMBER 2018

The Directors of MMA Offshore Limited ("MMA" or "Company") (ASX: MRM) present the Financial Report of the Company for the six months ended 31 December 2018.

Financial Summary

	Half year ended 31 Dec 2018	Half year ended 31 Dec 2017	Variance PCP
Revenue	$119.5M	$92.5M	⬆ $27.0M
EBITDA	**$12.6M**	**$7.6M**	⬆ **$5.0M**
NPAT (Normalised)[1]	**$(14.6)M**	**$(22.7)M**	⬆ **$8.1M**
Impairment of Assets	$(13.1)M	$8.4M	⬇ $(21.5)M
Reported NPAT	$(27.7)M	$(14.3)M	⬇ $13.4M

Commenting on the result, MMA's Chairman, Mr Andrew Edwards said:

"*We are pleased to report a 66% increase in EBITDA over the previous corresponding period due to a combination of improving market conditions and our strategy to dispose of non-core assets which has eliminated losses on underutilised vessels.*

"The weakness in the oil price during the latter part of 2018 has tempered sentiment but the fundamentals for a recovery in demand for our services remain sound as the oil majors are reporting strong cashflows even at current oil prices and we expect project approvals to increase significantly over the coming years to make up for a lack of sanctioning during the downturn.

"MMA has a strong core business which is well positioned to take advantage of an improvement in market conditions. We are also progressing a number of growth strategies to improve our returns including increasing our services in the subsea market, expanding our project logistics capability and taking advantage of opportunities to strategically charter in third party vessels to supplement our owned fleet.

"The recent market volatility contributed to a slight reduction in the independent market valuation of our fleet which resulted in a $13.1 million impairment charge (representing 2.6% of the net book value of our vessel assets). This compares to a positive $8.4 million in the previous corresponding period".

[1] Excluding the impact of an asset impairment charge of $13.1m in 1H FY2019 and impairment reversal of $8.4m in 1H FY2018

MMA's Managing Director, Mr Jeffrey Weber, commented:

"MMA's vessel business is starting to improve with our fleet operating at healthier utilisation levels over the past 18 months.

"Unfortunately, we have yet to see any material rate increases, which are badly needed to enable the industry to generate sustainable returns on assets, but the trend is heading in the right direction. MMA is well positioned to capitalise on the cyclical return of the industry given its significant operating leverage due to its fixed cost base.

"We have executed a very focused strategy during the downturn, divesting non-core assets, strengthening our balance sheet and reducing costs, all whilst maintaining our core capability around safety, operational excellence and innovation. Our reputation as a quality operator will stand us in good stead in terms of securing new contracts as the market improves.

"Our subsea fleet continues to build its reputation in the market completing a range of complex projects during the first half. We also have three vessels engaged in accommodation support and walk to work services, a growing part of our business.

"We expect the second half of FY2019 to be stronger than the first half and we confirm our previous guidance with full year operating EBITDA expected to be in the vicinity of $27 million."

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For further information contact:

Mr Jeffrey Weber
Managing Director
+61 8 9431 7431

Mr David Cavanagh
Chief Financial Officer
+61 8 9431 7431

MMA
OFFSHORE

ABN 21 083 185 693

Financial Report and Appendix 4D
for the Half Year Ended 31 December 2018

Table of Contents

Results for Announcement to the Market

Current Reporting Period: Half year ended 31 December 2018
Previous Reporting Period: Half year ended 31 December 2017

Earnings	31 Dec 2018 $'000	31 Dec 2017 $'000	% Change
Revenue from ordinary activities	119,518	92,495	29%
Loss before tax	(26,713)	(13,850)	93%
Loss after tax attributable to members	(27,671)	(14,286)	94%
Net loss attributable to members	(27,671)	(14,286)	94%

Information regarding the revenue and loss for the period is set out in the covering announcement accompanying this Report and in the Review of Operations in the Directors' Report on Page 4.

Dividends
Given the on-going market conditions, no interim dividend has been declared for the 2019 financial year.

Net Tangible Asset Backing	31 Dec 2018	31 Dec 2017
Net tangible asset backing per share	$0.36	$0.38

Details of Entities Where Control Has Been Gained or Lost During the Period to the date of this Report
MMA has not gained or lost control of any entities during the period up to the release of this Report.

Directors' Report

The Directors of MMA Offshore Limited (MMA) submit herewith the Financial Report of the Company and its subsidiaries (the Group) for the half year ended 31 December 2018. In order to comply with the provisions of the Corporations Act 2001 (Cth), the Directors report as follows:

The names of the Directors of the Company during or since the end of the half year are:

- Mr A Edwards
- Mr J Weber
- Ms E Howell
- Mr CG Heng
- Mr P Kennan

<u>Review of Operations</u>

Market Conditions

Market conditions for the offshore vessel market have improved since the previous corresponding period, however the unexpected sharp decline in the oil price in the last quarter of 2018 did impact confidence in the speed of the recovery.

Notwithstanding the ongoing volatility in the oil price, the fundamentals for a recovery in demand for offshore oil and gas services remain sound.

A significant amount of new investment is required to offset depleting production capacity due to a lack of projects being sanctioned during the downturn. With the oil and gas majors back to generating pre-downturn cashflows at the current oil price, it is expected that there will be an increase in project sanctioning and E&P investment during 2019 with further increases in 2020 and 2021.

In terms of the offshore vessel market, we have seen a steady increase in our core fleet utilisation over the past 18 months and some isolated rate increases but at this stage there is still little upward pressure on rates on a wider scale.

There remains an oversupply of commoditised vessels in the market, however, it is now widely acknowledged that many of the older vessels, and even vessels as young as 10 years old, currently in layup will never return to service reducing that oversupply.

Whilst the recovery has been slow to date, we are seeing increased tendering activity particularly in the Middle East and South East Asia so we remain optimistic that market conditions will continue to improve.

Financial Performance

MMA reported Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) of $12.6 million for the first half of FY2019, up 66% from the EBITDA of $7.6 million generated in the first half of FY2018.

Reported Net Loss after Tax was $(27.7) million after booking an impairment charge of $13.1 million against the value of the Company's assets. The Net Loss after Tax was $(14.6) million excluding the impact of the impairment charge, an improvement of 35.7% on the previous corresponding period.

Balance Sheet

MMA's Cash at Bank as at 31 December 2018 was $64.6 million and Net Debt (Interest Bearing Liabilities less Cash at Bank) was $205.4 million. Gearing (Net debt / Equity) was 65.8% up from 57.4% as at 31 December 2017.

MMA's leverage (Net debt to property plant and equipment) was 42% making MMA one of the lowest geared OSV companies in the world. MMA also has cash reserves in excess of most competitors globally, providing stability to our customers, shareholders, financiers and employees.

MMA reviewed the carrying value of its fleet as at 31 December 2018, in line with accounting standards, which resulted in an impairment charge of $13.1 million, representing approximately 2.6% of the book value of vessel assets. This compares to a reversal of previous impairment charges of $8.4m during the half year ended 31 December 2017. The valuation of the fleet will continue to fluctuate given the current volatile market conditions and the current valuation methodology of Fair value less costs to sell. As outlined previously, MMA has already disposed of the majority of its non-core vessels and expects to retain the majority of its fleet for the medium term.

Operations

Average utilisation across the fleet globally for the first half was approximately 73%, up from 48% in the first half of FY2018 or 56% excluding vessels held for sale.

Australian utilisation was strong with two key project scopes completed during the first half.

The first was a project logistics contract for Subsea 7, whereby MMA project managed a spread of owned and subcontracted tugs and barges to transport project materials and equipment for Woodside's Greater Western Flank 2 Subsea Installation Project. MMA utilised its onshore facility at Batam, Indonesia for the barge mobilisations providing an integrated service to the client. The project completed in September 2018.

The second major project was a multi-vessel marine spread supporting ConocoPhillips with shutdown and drilling operations at their Bayu Undan gas project in the Timor Sea. Two PSV's the MMA Leeuwin and MMA Responder were engaged to provide supply support services for the duration of the drilling campaign. In addition, an additional three vessels were engaged to support shut down, rig moves and additional supply services. The project commenced in March 2018 and was completed successfully in December 2018.

Following the completion of the ConocoPhillips project, the MMA Responder secured a contract in the Bass Strait. This was an important contract win for MMA giving us the opportunity to demonstrate our service capability to a new client in the region.

MMA's long-term production support contracts with Woodside, INPEX, BHP, Santos and ConocoPhillips continued through the first half providing full utilisation for 6 of MMA's vessels.

Activity in South East Asia appears to be picking up although the end of the year has been quieter as a result of the monsoon period.

The MMA Prestige and MMA Pinnacle continue to demonstrate their capability in the subsea market supporting a number of project scopes in South East Asia during the first half including saturation diving, well intervention, umbilical installation and inspection, maintenance and repair. The MMA Prestige was also utilised in an MMA managed air dive project in Bangladesh which involved a subsea repair scope and a series of anchor tensioning tasks.

We are also developing a capability in accommodation support and walk to work services with the MMA Pride and MWV Falcon (recently chartered into the fleet) being fitted with Ampelmann gangways to support projects in Brunei and India. The MMA Privilege continues on its long-term accommodation and walk to work scope in West Africa, having been engaged on that project since its delivery in 2016. We have also secured a walk to work contract in Australia for the second half of the financial year. We will continue to build our expertise in this segment.

The Majestic and Sea Hawk 1, MMA's large AHTS vessels were active in Malaysia for most of the first half achieving good utilisation.

The remainder of the South East Asian fleet operated in the spot market where we are seeing increased demand, but rates remain highly competitive.

The market in the Middle East is also showing positive signs in terms of increased activity, however there remains a significant oversupply of vessels in the market and rates remain low.

MMA continues to have three vessels engaged on long term contracts in Saudi Arabia. Typically these contracts would provide full utilisation for these vessels, however a number of technical issues during the first half meant that we lost some utilisation which impacted our revenue.

The MMA Cavalier, having been in the spot market for some time, recently commenced a six month contract in Saudi Arabia.

The MMA Pride was mobilised out of the Middle East to South East Asia during the first half but will likely return at the end of the contract for a total of 5 vessels in the region.

Cost control

We continue to carefully monitor operating costs on vessels between contracts, down manning where possible and laying up vessels at our onshore facilities in South East Asia to contain costs. Our operating and corporate overheads remain a key focus to ensure we make the most of our spend in all areas.

Strategy

MMA has executed a clear strategy during the downturn and now has a strong core business which is well positioned to benefit from any improvement in market conditions.

We have reduced our exposure to the more commoditised segments of the market which have the largest oversupply and will take longer to recover. Our strategy is focused on the higher margin market segments through technically advanced assets and providing an expanded range of marine services to our clients.

We are pursuing a number of growth initiatives including subsea services, developing our project logistics business in key growth regions and seeking opportunities to supplement our owned fleet through the charter of strategic third-party vessels. Our key focus is to drive improved returns on our assets to a sustainable level.

Outlook

The fundamentals remain positive for a recovery in market conditions in the medium term. We expect ongoing short-term volatility as demonstrated by the recent oil price fall which may impact momentum.

We confirm our full year guidance with full year operating EBITDA expected to be in the vicinity of $27 million.

<u>Auditors' Independence Declaration</u>

The Auditors' Independence Declaration is included on page 8 of the half year report.

<u>Rounding off of Amounts</u>

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with this Corporations Instrument, amounts in the Directors' Report and the Half Year Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of Directors made pursuant to s306(3) of the Corporations Act 2001 (Cth).

On behalf of the Directors

ANDREW EDWARDS
Chairman

Perth, 22 February 2019

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Tower 2
Brookfield Place
123 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

The Board of Directors
MMA Offshore Limited
Endeavour Shed
1 Mews Road
Fremantle WA 6160

22 February 2019

Dear Directors

MMA Offshore Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of MMA Offshore Limited.

As lead audit partner for the review of the financial statements of MMA Offshore Limited for the half year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

John Sibenaler
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Tower 2
Brookfield Place
123 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

Independent Auditor's Review Report to the members of MMA Offshore Limited

We have reviewed the accompanying half-year financial report of MMA Offshore Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2018, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the MMA Offshore Limited's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of MMA Offshore Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of MMA Offshore Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of MMA Offshore Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

John Sibenaler
Partner
Chartered Accountants
Perth, 22 February 2019

Directors' Declaration

The Directors declare that:

a) In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

b) In the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001 (Cth), including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the Directors made pursuant to s303(5) of the Corporations Act 2001 (Cth).

On behalf of the Directors,

ANDREW EDWARDS
Chairman

Perth, 22 February 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half year ended 31 December 2018

	Note	Dec 2018 $'000	Dec 2017 $'000
Revenue	2.1	119,518	92,495
Investment income		656	67
Other gains/(losses)	2.2	(369)	(250)
Vessel expenses		(119,812)	(96,555)
Administration expenses		(4,101)	(3,785)
Impairment (charge)/reversal	2.1	(13,092)	8,407
Finance costs		(9,513)	(14,229)
Loss before tax		(26,713)	(13,850)
Income tax expense		(958)	(436)
Loss for the Period		(27,671)	(14,286)
Other Comprehensive Income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		19,474	(7,154)
Gain/(Loss) on hedge of net investment in a foreign operation		(8,328)	2,655
Other comprehensive income for the period, net of tax		11,146	(4,499)
Total Comprehensive Loss for the Period		(16,525)	(18,785)
Loss attributable to owners of the Company		(27,671)	(14,286)
Total comprehensive loss attributable to owners of the Company		(16,525)	(18,785)

		Cents Per Share	Cents Per Share
Earnings/(Loss) per share			
Basic	2.3	(3.22)	(3.02)

The above Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Financial Position
As at 31 December 2018

	Note	Dec 2018 $'000	June 2018 $'000
Current Assets			
Cash and cash equivalents		64,559	69,648
Trade and other receivables	3.1	60,807	61,641
Inventories	3.2	2,465	1,615
Prepayments		1,258	1,062
Assets classified as held for sale		-	9,397
Total Current Assets		129,089	143,363
Non-Current Assets			
Property, plant and equipment	3.3	492,527	496,421
Total Non-Current Assets		492,527	496,421
Total Assets		621,616	639,784
Current Liabilities			
Trade and other payables	3.5	26,809	32,309
Unearned revenue		1,114	375
Borrowings	3.6	6	1,739
Provisions	3.7	10,468	10,665
Current tax liabilities		1,594	1,186
Customer security deposits		160	-
Total Current Liabilities		40,151	46,274
Non-Current Liabilities			
Trade payables		5,194	5,020
Borrowings	3.6	263,859	259,933
Provisions	3.7	170	262
Total Non-Current Liabilities		269,223	265,215
Total Liabilities		309,374	311,489
Net Assets		312,242	328,295
Equity			
Issued capital	4.1	654,735	654,735
Reserves		133,072	121,454
Accumulated losses		(475,565)	(447,894)
Total Equity		312,242	328,295

The above Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Changes in Equity
For the half year ended 31 December 2018

Half Year Ended 31 December 2018	Issued Capital $'000	Employee Equity Settled Benefits Reserve $'000	Hedging Reserve $'000	Foreign Currency Translation Reserve $'000	Accumulated Losses $'000	Total $'000
Balance at 1 July 2018	654,735	154	(57,290)	178,590	(447,894)	328,295
Comprehensive income/(loss) for the period:						
Loss for the period	-	-	-	-	(27,671)	(27,671)
Other comprehensive income/(loss) for the period	-	-	(8,328)	19,474	-	11,146
Total Comprehensive Income/(Loss) for the Period	-	-	(8,328)	19,474	(27,671)	(16,525)
Recognition of share based payments	-	472	-	-	-	472
Balance at 31 December 2018	654,735	626	(65,618)	198,064	(475,565)	312,242

Half Year Ended 31 December 2017	Issued Capital $'000	Employee Equity Settled Benefits Reserve $'000	Hedging Reserve $'000	Foreign Currency Translation Reserve $'000	Accumulated Losses $'000	Total $'000
Balance at 1 July 2017	561,275	1,114	(51,203)	165,288	(419,985)	256,489
Comprehensive income/(loss) for the period:						
Loss for the period	-	-	-	-	(14,286)	(14,286)
Other comprehensive income/(loss) for the period	-	-	2,655	(7,154)	-	(4,499)
Total Comprehensive Income/(Loss) for the Period	-	-	2,655	(7,154)	(14,286)	(18,785)
Issue of shares under institutional placement	22,385	-	-	-	-	22,385
Issue of shares under institutional entitlement offer	15,605	-	-	-	-	15,605
Issue of shares under retail entitlement offer	59,010	-	-	-	-	59,010
Share issue costs	(4,385)	-	-	-	-	(4,385)
Recognition of share based payments	-	28	-	-	-	28
Balance at 31 December 2017	653,890	1,142	(48,548)	158,134	(434,271)	330,347

The above Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Cash Flows
For the half year ended 31 December 2018

	Dec 2018 $'000	Dec 2017 $'000
Cash flows from Operating Activities		
Receipts from customers	122,715	104,909
Interest received	657	68
Payments to suppliers and employees	(107,119)	(89,149)
Income tax paid	(624)	(1,140)
Interest and other costs of finance paid	(8,384)	(9,038)
Net Cash Provided by/(Used in) Operating Activities	7,245	5,650
Cash flows from Investing Activities		
Payments for property, plant and equipment	(13,017)	(3,181)
Proceeds from sale of property, plant and equipment	7,312	12,501
Net Cash Provided by/(Used in) Investing Activities	(5,705)	9,320
Cash flows from Financing Activities		
Proceeds from issue of shares	-	97,000
Payment of share issue costs	-	(4,385)
Repayment of borrowings	(7,255)	(45,564)
Financing fees on borrowings	(9)	(3,911)
Net Cash Provided by/(Used In) Financing Activities	(7,264)	43,140
Net increase/(decrease) in cash and cash equivalents	(5,724)	58,110
Cash and cash equivalents at the beginning of the half year period	69,648	28,757
Effects of exchange rate changes on the balance of cash held in foreign currencies	635	(482)
Cash and Cash Equivalents at the End of the Half Year	64,559	86,385

The above Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Condensed Consolidated Financial Statements

1. General Notes

Statement of compliance

The half year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 ‘Interim Financial Reporting’. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 ‘Interim Financial Reporting’. The half year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Historical cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors’ Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with this Corporations Instrument, amounts in the half year report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the Company’s 2018 annual financial report for the financial year ended 30 June 2018**,** except for the impact of the Standards and Interpretations outlined in the New or Revised Standards section in note 4.2. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Refer to note 4.2 for details on the policies adopted and their impact on the results in this half year report.

2. Financial Performance

2.1 Segment information

An operating segment is a component of a group that engages in business activities from which it may earn revenue and incur expenses and whose operating results are regularly reviewed by the chief operating decision maker (The Board of Directors) for the purposes of resource allocation and assessment of segment performance. For the current reporting period the Group had one reportable segment in continuing operations being its Vessel operations.

Information regarding the Vessel operating segment is presented below. The accounting policies of the reportable segment are the same as the Group's accounting policies.

Segment revenues and results

The following is an analysis of the Group's revenue and results by Vessel segment:

	Revenue from external customers		Impairment (charge)/reversal		Profit/(loss) after impairment	
	Dec 2018 $'000	Dec 2017 $'000	Dec 2018 $'000	Dec 2017 $'000	Dec 2018 $'000	Dec 2017 $'000
Vessels	119,518	92,495	(13,092)	8,407	(13,386)	4,347
Total segment profit/(loss)					(13,386)	4,347
Investment Revenue					656	67
Other gains/(losses)					(369)	(250)
Administration expenses					(4,101)	(3,785)
Finance costs					(9,513)	(14,229)
Loss for the period					(26,713)	(13,850)

Segment profit/(loss) represents the profit/(loss) earned by the Vessel segment without allocation of investment revenue, other gains and losses, administration costs, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Disaggregation of revenue

The Group derives its revenue from a number of different regions being:

	Dec 2018 $'000	Dec 2017 $'000
Revenue recognition:		
Revenue Region		
Australia	82,359	64,313
International	37,159	28,182
Total	119,518	92,495

Segment Assets

The following is an analysis of the Group's assets by reportable segment:

	Dec 2018 $'000	June 2018 $'000
Vessel segment assets(i)	552,871	566,129
Unallocated assets	68,745	73,655
Total	621,616	639,784

(i) Vessel segment assets include property, plant and equipment, vessels held for sale, trade debtors, inventory and other receivables.

For the purposes of monitoring segment performance and allocating resources to a segment, all assets are allocated to a reportable segment other than cash and central administration assets.

2. Financial Performance (continued)

2.1 Segment information (continued)

Other segment information

	Depreciation and amortisation		Additions to non-current assets	
	Dec 2018 $'000	Dec 2017 $'000	Dec 2018 $'000	Dec 2017 $'000
Vessel assets	16,889	15,498	5,690	3,158
Unallocated assets	284	315	16	22
Total	17,173	15,813	5,706	3,180

Impairment charges/(reversals)

In addition to the depreciation reported above, impairment charges/(reversals) were recognised in respect of vessels as follows:

	Dec 2018 $'000	Dec 2017 $'000
Vessels held for continuing operations	10,968	(8,236)
Vessels held for sale	2,124	(171)
Total	13,092	(8,407)

2.2 Other income and expenses	Dec 2018 $'000	Dec 2017 $'000
Profit/(loss) for the period has been arrived at after recognising the following specific amounts:		
Other gains and losses:		
Net foreign exchange gains/(losses)	(158)	(389)
Gain/(loss) on disposal of property, plant and equipment	-	(156)
Profit/(Loss) on disposal of assets held for sale	(211)	295
Total	(369)	(250)
Depreciation:		
Leasehold buildings and improvements	44	46
Vessels at cost	16,702	15,302
Plant and equipment	427	465
Total	17,173	15,813
Impairment charges:		
Impairment charges recognised on trade receivables	1,316	802
Impairment (charges)/reversals recognised on vessel assets	(13,092)	8,407
Employee benefits:		
Post-employment benefits:		
Defined contribution plans	4,738	3,972
Share based payments:		
Equity settled share based payments	472	28
Other employee benefits	50,760	44,340
Total	55,970	48,340

2. Financial Performance (continued)

2.3 Earnings per Share

The earnings used in the calculation of basic and diluted earnings per share are as follows:

	Dec 2018 $'000	Dec 2017 $'000
Loss for the year used in the calculation of basic earnings per share	(27,671)	(14,286)

	Dec 2018 No. '000	Dec 2017 No.'000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	858,077	472,577

3. Assets and Liabilities

3.1 Trade and Other Receivables	Dec 2018 $'000	Jun 2018 $'000
Trade receivables (net)	55,401	54,978
Other receivables	5,406	6,663
Total	60,807	61,641

The credit period for customers is negotiated individually on a case by case basis. An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past rendering of services.

	Dec 2018 $'000	Jun 2018 $'000
Ageing of net receivables:		
1-30 days	32,282	31,615
31-60 days	7,945	5,548
61-90 days	2,627	2,744
Over 90 days (i)	12,547	15,071
Total	55,401	54,978

(i) Of the Over 90 day trade debtors, $7.9 million is outstanding from three debtors.

3.2 Inventories	Dec 2018 $'000	Jun 2018 $'000
Fuel – at cost	2,137	1,289
Consumables	328	326
Total	2,465	1,615

3.3 Property, Plant & Equipment

	Leasehold Buildings and Improvements at cost $'000	Vessels at cost $'000	Plant and Equipment at cost $'000	Total $'000
Gross carrying amount:				
Balance at 1 July 2018	13,996	952,757	16,465	983,218
Additions	-	5,690	16	5,706
Net currency exchange differences	635	36,641	471	37,747
Balance at 31 December 2018	14,631	995,088	16,952	1,026,671
Accumulated depreciation:				
Balance at 1 July 2018	(12,753)	(460,967)	(13,077)	(486,797)
Depreciation expense	(44)	(16,702)	(427)	(17,173)
Impairment	-	(10,968)	-	(10,968)
Net currency exchange differences	(611)	(18,272)	(323)	(19,206)
Balance at 31 December 2018	(13,408)	(506,909)	(13,827)	(534,144)
Net book value:				
As at 30 June 2018	1,243	491,790	3,388	496,421
As at 31 December 2018	1,223	488,179	3,125	492,527

3. Assets and Liabilities (continued)

3.4 Impairment of non-current assets

The Group performs a review of non-current asset values at each reporting period and whenever events occur or changes in circumstances indicate that the carrying amount of an asset group may be impaired. Market conditions are monitored for indications of impairment for all of the Group's operating assets and where such indications are identified, a formal impairment assessment is performed.

The Group has identified the following indicators of impairment at 31 December 2018:

- the carrying amount of the net assets of the Group is greater than the Company's market capitalisation; and
- market conditions in both Australia and internationally have continued to be challenging as the impact of lower oil prices is felt across the offshore support industry.

As a result, the Group assessed the recoverable amount of the Vessels Cash-Generating Unit ('CGU').

Impairment testing

The Group has evaluated whether the recoverable amount of the CGU exceeds its carrying amount. The recoverable amount is determined to be the higher of its fair value less costs of disposal ("FVLCOD") or its value in use. The Group has used the FVLCOD model for the purpose of impairment testing as at 31 December 2018.

Impairment charges/(reversals) recognised

The following information relates to impairment charges/(reversals) included in profit or loss:

Segment/CGU	Class of asset	Method	Dec 2018 $'000	Dec 2017 $'000
Vessels	Property, Plant & Equipment	FVLCOD	10,968	(8,236)
Vessels	Assets classified as held for sale	FVLCOD	2,124	(171)
			13,092	(8,407)

The inputs used in deriving the recoverable amount of each CGU is categorised in accordance within the following levels of the fair value hierarchy:

CGU	Level 3(i) $'000	Recoverable Amount $'000
Vessels:		
Continuing operations	492,527	492,527
Held for sale	-	-

(i) Level 3 inputs are unobservable inputs used to measure fair value. In our calculations the inputs used are based on both observable and unobservable market data prepared by an independent valuation consultant together with internally determined valuations. Due to the unobservable market data and internal valuation components of the valuations, the inputs are considered Level 3.

Vessels

The oil and gas services sector continues to experience one of its worst periods in history. Despite this, the sector sentiment has improved around a recovery in the broader oil and gas market with key industry commentators indicating that the market may have bottomed. We expect the recovery to be volatile and the timing is still uncertain. This uncertainty is highlighted by the decline in the oil price in November 2018. At a time when the price had been slowly trending upwards for the previous 18 months, the decrease was not anticipated. Whilst some of the decrease has since been recovered, it illustrates the uncertainty in the market. To date we have not seen the decrease have a significant impact on sentiment around the offshore support vessel market with increasing tendering activity in a number of regions. In addition, a proportion of the global cold stacked vessels are not expected to return to service given the extended downturn, eliminating some of the supply overhang.

As in previous reporting periods, there are two separate fair value assessments for the fleet, being those core vessels used for continuing operations and those non-core vessels that are held for sale.

3. Assets and Liabilities (continued)

3.4 Impairment of non-current assets (continued)

Continuing Operations

The recoverable amount of the core vessels was determined using a market-based approach, reflecting the value which could be expected to be realised through the disposal of the vessels, in an orderly market, on an "as is where is" basis between a willing buyer and willing seller.

An independent valuation of the fleet was undertaken by a specialist marine valuation consultancy and shipbroking company. In preparing their valuation report, some of the factors they considered include the current market conditions in which the vessels operate, a review of recent market sales of similar vessels, consideration of the specification and earnings potential of each vessel and the inherent value and replacement cost of each vessel.

A key input into the recoverable amount of the CGU was the application of a discount to the independent vessel valuation to reflect the amount which would be achieved if the fleet was disposed of in one single transaction. In the June 2018 impairment assessment, the company used a discount of 17.5%. The board have continued to apply this discount of 17.5% for the current period to reflect the current recoverable value.

In addition to the factors identified at 30 June 2018, the following factors were taken into account in determining this value:

- the decline in the oil price during the period
- the partial recovery since the decline
- the continued over supply of vessels in the market

On balance, it was decided that there was no significant or sustained change from 30 June 2018 and 17.5% still reflected the appropriate rate to use.

A 2.5% increase or decrease in the 'en bloc discount rate would result in a corresponding $15 million increase or decrease in the impairment reversal or charge.

Another key input was the estimated costs of disposal. The Company has adopted a selling cost equal to 2% of the sale value of each vessel based on actual selling costs of between 1.5% and 2.5% for previous vessel sales.

Inputs in determining the classification level within the fair value hierarchy are reassessed at each reporting period as part of the impairment process. The inputs used within calculations are assessed and discussed internally to determine the extent to which they can be compared to observable market information and classified accordingly.

Held for Sale

The recoverable amount of the one remaining non-core vessel was determined using a market-based approach, reflecting the value which could be expected to be realised through an accelerated sale program.

In assessing the fair value of the non-core vessel, the Company has taken into consideration the following factors:

- actual sales of the non-core vessels that have been completed to date
- market sales evidence for similar vessels over the past 6 months
- a condition report received for the vessel

Given the condition of the vessel and expected substantial cost to return it to working order it was decided to reduce the expected recoverable value to nil.

3.5 Trade and Other Payables	Dec 2018 $'000	June 2018 $'000
Trade payables	5,653	5,017
Other payables and accruals	20,579	26,379
Goods and services tax payable	577	913
Total	26,809	32,309

3. Assets and Liabilities (continued)

3.6 Borrowings	Dec 2018 $'000	June 2018 $'000
Secured – at amortised cost		
Current		
Hire purchase liability (i)	6	6
Bank loans (ii)	-	3,992
Unamortised loan fees (iii)	-	(2,259)
Total	6	1,739
Non-Current		
Hire purchase liability (i)	1	4
Bank loans (ii)	270,076	265,009
Unamortised loan fees (iii)	(6,218)	(5,080)
Total	263,859	259,933

(i) The hire purchase liabilities are fixed interest rate debt with repayment periods not exceeding 3 years.

(ii) There have been no changes to the terms of the Group's Syndicated Debt facility during this period.

Proceeds from the sale of non-core vessels will continue to be applied against the outstanding amount with $7.3 million repaid during the 6 months to 31 December 2018.

The decrease in the AUD exchange rate has resulted in a higher AUD value of the USD component of the facility.

The Facility is fully secured by fixed and floating charges given by certain controlled entities within the Group, registered ship mortgages over a number of vessels owned by certain controlled entities and real property mortgages.

(iii) The unamortised loan fees are in relation to the Syndicated Facility Agreement.

3.7 Provisions	Dec 2018 $'000	June 2018 $'000
Current		
Employee benefits – annual leave	6,015	6,352
Employee benefits – long service leave	4,453	4,313
Total	10,468	10,665
Non-Current		
Employee benefits – long service leave	170	262

4 Capital Structure and Other

4.1 Issued Capital

Fully Paid Ordinary Shares	Dec 2018 No '000	Dec 2018 $'000
Balance at beginning and end of half year	858,077	654,735

4.2 Accounting Policies

New and amended accounting standards and interpretations adopted

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current half-year.

AASB 15 Revenue from Contracts with Customers (effective 1 July 2018)

AASB 15 establishes a single comprehensive model to use in accounting for revenue from contracts with customers. The core principal of AASB 15 is that revenue is recognised as the promised goods or services are provided to customers in an amount that reflects the consideration expected to be received in exchange for those goods or services.

The standard introduces a five-step process for applying this principle which includes guidance in respect of identifying the performance obligations under the contract, allocation of revenue across those performance obligations and recognising revenue as those performance obligations are satisfied.

The Group has adopted the new standard using the modified retrospective approach where any adjustment, on initial recognition, is recognised in retained earnings at 1 July 2018, without adjustment to comparatives. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of AASB 15 has not had a significant impact on the financial position and/or financial performance of the Group. The Group's new revenue accounting policy is set out below.

The Group recognises revenue as the promised goods and services are provided to customers in an amount that reflects the consideration expected to be received in exchange for those goods and services.

Revenue from charter of vessels
Revenue from the charter of vessels is an integrated service provided to customers and includes the charter of the vessel and crew, mobilisation and demobilisation. Revenue is recognised over the period of time over which the customer utilises the vessel. Where the entity supplies goods such as fuel to the customer as part of the contract, revenue is recognised at a point in time when the customer obtains control of the goods.

There was no material impact to retained earnings required to be recognised in the financial statements on initial adoption of the new standard.

AASB 9 Financial Instruments (effective 1 July 2018)

AASB 9 requires an expected credit loss ("ECL") model for trade receivables as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires an entity to account for expected credit losses and changes in expected losses to reflect changes in credit risk since initial recognition. It is no longer necessary for a credit event to have occurred before credit losses are recognised.

The transitional provisions of the standard allow an entity not to restate comparatives, which the Group has adopted.
The directors have reviewed and assessed the Group's existing financial assets as at 1 July 2018 based on the facts and circumstances that existed at that date and concluded that the application of AASB 9 has not had a significant impact on the Group's financial performance or position.

The Group measures the loss allowance for lifetime expected credit losses ("ECL") at initial recognition of the trade receivable. The amount of lifetime ECL's is updated at each reporting period to reflect changes in credit risk since initial recognition. The expected credit losses on trade receivables are estimated using a provision matrix based on the Group's historical credit loss experience and an analysis of the debtor's current financial position, adjusted for factors that are specific to debtors, geographic region, general economic conditions and an assessment of current and forecast conditions at reporting date.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

4.3 Events After the Reporting Period

There has not been any matter or circumstance that occurred subsequent to the end of the half year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.