2019 PRELIMINARY FINANCIAL REPORT

The Directors of MMA Offshore Ltd ("MMA" or "the Company") (ASX: MRM) submit the Preliminary Financial Report for the Company for the year ended 30 June 2019.

MMA reported a 19.4% increase in revenue to $239.3 million and a 50.3% increase in EBITDA to $27.8 million. Excluding the impact of asset revaluations, normalised NPAT improved from a loss of $36.3 million in FY18 to a loss of $27.0 million in FY19. After the impact of asset revaluations, MMA reported a Net Loss After Tax of $37.4 million.

	30 Jun 2019	30 Jun 2018	Variance
Revenue	$239.3M	$200.4m	⬆ 19.4%
EBITDA	$27.8M	$18.5M	⬆ 50.3%
Normalised NPAT	$(27.0)M	$(36.3)M	⬆ 25.6%
Asset Impairment	$(10.4)M	$8.4M	n/a
Reported NPAT	$(37.4)M	$(27.9)M	n/a

Key Financial and Operational Highlights

- Significant growth in revenue and EBITDA in FY2019
  - Revenue up 19.4% to $239.3 million
  - EBITDA up 50.3% to $27.8 million
- Leading safety performance with MMA's Total Recordable Case Frequency of 0.53 well below the industry average of 1.7
- Increase in vessel utilisation to 72%, with higher weighting to larger vessels and rates increasing in more specialised vessel segments
- Long term contracts underpinning earnings and cashflow
- Ongoing success in securing new contracts, reflecting quality of fleet and established service offering across our strong client network
- ROA and debt metrics improving and remain a key priority
- Good progress with building our services capability to drive higher margins and return on assets
- Innovation in delivering technically complex marine solutions including MMA Pinnacle "Walk to Work" and accommodation vessel
- Acquisition of Neptune Marine Services to accelerate development of comprehensive subsea service offering
- Creation of MMA Global Projects to further develop and grow project logistics business

MMA Offshore Limited
ABN 21 083 185 693
Endeavour Shed, 1 Mews Road FREMANTLE WA 6160
PO Box 715 SOUTH FREMANTLE WA 6162
T +61 8 9431 7431 F +61 8 9431 7432

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

“MMA’s result for the financial year was in line with our market guidance and consistent with our view that the market is improving.

“While geopolitical issues are impacting market sentiment and commodity prices, the fundamentals for a recovery in oil and gas spending remain sound and there is a broad consensus that the OSV market is in the early stages of recovery. We are seeing a higher number of oil and gas projects being sanctioned globally, and this trend is expected to continue, which will increase global OSV utilisation and should in turn translate into higher rates over time.

“Global offshore vessel utilisation has bottomed out and is now increasing and rate improvements are being seen in the more specialised vessel segments. The view is that the OSV market is tighter than it appears with long term laid up vessels facing significant reactivation costs and lower demand due to their age and condition.

“Market conditions over the past 4 years have reduced our return on assets to unsatisfactory levels, however the market is trending in the right direction and even a modest increase in utilisation or rates will have a significant impact on the returns from our vessels.

“We are executing a strategy to grow our returns through expanding the level of services we package with our vessels, thereby increasing our margins. The acquisition of Neptune Marine Services is a key part of this strategy and is expected to deliver improved returns on our assets. We are also positioning ourselves to grow our project logistics business with the creation of “MMA Global Projects”.

MMA Managing Director, Mr Jeffrey Weber said:

“We have seen a continued improvement in MMA’s financial performance, reflecting increased utilisation and a strong uptake of our established services offering. Our earnings and cashflow are underpinned by a number of long term contracts and our success in securing new contracts reflects both the quality of our fleet and our track record of supporting complex projects and delivering valuable services to our customers.

“We continue to demonstrate our competence in delivering innovative and technically complex marine solutions to our clients including a first of its kind for platform maintenance in Australia. MMA’s solution, developed in conjunction with our client, utilised one of our vessels, the MMA Pinnacle as a “Walk to Work” and accommodation vessel. This resulted in a safer and more efficient method of transferring personnel to the platform during the shutdown and paves the way for future projects in the region.

“Our high quality, modern fleet of vessels positions MMA well to benefit from an increase in activity as does our investment in building our services offering. The acquisition of Neptune Marine Services will accelerate the development of our subsea services offering and we are well placed to continue to grow our project logistics business and our “Walk to Work” offer.

“I would like to thank all our valued team members for their hard work and commitment through the past year to help achieve these results and better position MMA for the future.”

Review of Operations

Market Conditions

There is now a broad market consensus that the offshore vessel market is improving. Global utilisation has bottomed out, rates in the more specialised sectors have begun to increase and the oversupply of vessels is considered to be overstated given the age and condition of the global fleet currently in layup and the prohibitive costs to reactivate vessels.

While we continue to see geopolitical issues impacting confidence in global markets and commodity prices, the fundamentals for increased oil and gas spending are sound. Oil companies have been generating record cash flows at the current oil prices and the number of oil and gas projects being sanctioned for development has increased significantly during the year. This trend is forecast to continue over the coming years in an effort to replace depleting reserves, following a lack of investment during the downturn. A number of significant projects are flagged for final investment decisions in MMA's regions of operation which we expect to lead to increased demand for our services.

Global OSV utilisation has improved gradually since bottoming at 48% in 2017 to approximately 55% today, with vessels younger than 10 years showing a much stronger recovery profile. Adjusting for laid up vessels which are of an age that are unlikely to return to service in the oil and gas industry, the market is significantly tighter than it appears. Rates have increased in some of the more specialised segments of the market where there has been a periodic lack of available vessels to meet demand.

At this stage, we are not seeing rate increases at a broader level but as supply tightens over time, we expect rate increases to follow. With our modern, high quality fleet, we are well positioned to benefit from a market upturn.

Operational Highlights

Vessel revenue for the year was $239.3 million, up 19.4% on FY2018. Vessel EBITDA was up 38.9% at $35.1 million.

Our Australian operations contributed revenue of $159.3 million, up 12% on FY2018. Revenue from international operations was $80.0 million, up 37% on FY2018.

Average utilisation for the year was 72% up from 68% in FY2018. Our first half utilisation was stronger at 74% with the third quarter impacted by the South East Asian monsoon period, bringing utilisation down to 67%.

As at 30 June 2019, MMA had 24 of its 30 core vessels under short and long term contracts with the remaining vessels available for work in the spot market. As at 30 June 2019, 27% of available vessel days for FY2020 were contracted increasing to 43% taking into account highly probable contract awards and extension periods. On a revenue basis, 47% of our budgeted revenue is already under contract for FY2020 (62% including highly probable). This is consistent with our strategy of maintaining a balance of contracted and spot revenue in the order book in order to preserve the operating leverage of the business as rates increase.

MMA maintained its world class safety performance during FY2019 with a Total Recordable Case Frequency ("TRCF") of 0.53 per million hours worked, well below the industry average of 1.7 as measured by the International Maritime Contractors Association ("IMCA").

In July 2019, we announced an agreement to acquire Neptune Marine Services Limited, a leading provider of topside and subsea inspection, maintenance and repair solutions to the oil and gas, marine and renewable energy industries.

Australia / New Zealand

Australian utilisation was strong at 81% with a number of projects contributing to activity during the year. Utilisation in the first half was stronger at 86%, reducing to 77% in the second half as a number of multi-vessel project scopes completed.

During the first half, MMA completed a project logistics scope for Subsea 7, managing 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. We utilised our onshore facility at Batam, Indonesia for the barge mobilisations, providing an integrated service to the client. The project was completed in September 2018.

We also completed a multi-vessel project, supporting ConocoPhillips' shutdown and drilling operations at their Bayu Undan gas project in the Timor Sea. Two PSVs, the MMA Leeuwin and MMA Responder were engaged to provide supply support services for the duration of the drilling campaign. An additional three vessels were engaged to support shut down, rig moves and supply services. The project completed successfully in December 2018.

In February 2019, MMA was awarded a contract by Santos to support its 2019 jack-up drilling campaign. The contract was for the provision of three vessels to support the drilling campaign, including two anchor handling tug supply vessels, the MMA Vision and MMA Coral, and a platform supply vessel, the MMA Leeuwin. The scope of services includes rig tows to and from the field, infield rig moves and platform supply duties in support of the Noble Tom Prosser rig. The contract is ongoing and is expected to continue until September 2019.

In April 2019, we were awarded a contract by Woodside to provide accommodation and walk-to-work vessel services to support platform maintenance operations over two scopes. The MMA Pinnacle was fitted with a bespoke motion-compensated gangway system to enable the safe and efficient transfer of personnel between the Woodside platforms and their accommodation on the vessel. The first scope of work was completed successfully in May 2019 with the second scope due to commence in September 2019. In the period between the two Woodside work scopes, the MMA Pinnacle has been engaged on a number of inspection, maintenance and repair projects in the North West of Australia. Once the second Woodside scope is completed, the MMA Pinnacle will complete the remainder of its three-year contract with i-Tech 7, the life of field business unit of Subsea 7, which will provide full utilisation for the vessel through to December 2021.

In December 2018, the MMA Responder, a PSV that MMA has bareboat chartered into the fleet, was contracted to a client in the Bass Strait in support of production and drilling operations on a short-term basis. The vessel currently remains on contract and will extend into December 2019.

The MMA Valour is currently mobilised with a spread of geotechnical equipment for Benthic and completed a number of scopes in Australia during the year before being transferred to South East Asia and more recently East Africa, for further Benthic work.

MMA's long-term production support contracts with Woodside, INPEX, BHP/Santos and ConocoPhillips continued through FY2019 providing full utilisation for 6 of our vessels during the year. The Woodside contracts were recently extended by 6 months through to December 2019.

The outlook for activity in Australia is relatively strong with drilling activity picking up again and a number of significant projects currently under evaluation.

South East Asia

Activity in South East Asia is picking up, although the reduction in activity during the monsoon period between December and March was more pronounced in FY2019 than in prior years. Utilisation for the year averaged 62% but reduced to 56% during the monsoon period. We are starting to see some periodic upward pressure on rates in some of the more specialised sectors, but the more commoditised vessels remain highly competitive.

The MMA Prestige and MMA Pinnacle continued to operate in the subsea market during the year, supporting a number of project scopes in South East Asia including saturation diving, well intervention, umbilical installation and inspection, maintenance and repair. In line with our strategy to increase our subsea service offering, we also took a lead contractor role on an air dive project in Bangladesh with the MMA Prestige completing a subsea repair scope and a series of anchor tensioning tasks.

During the year MMA also supported a number of accommodation support and walk to work projects in South East Asia with the MMA Pride and MWV Falcon (a chartered vessel) fitted with Ampelmann gangways to support projects for Brunei Shell Petroleum and BG Shell in India.

The Majestic and Sea Hawk 1, MMA's large AHTS vessels were predominantly active in Malaysia during the year achieving solid utilisation aside from the monsoon months.

The MMA Vigilant was active undertaking inspection, maintenance and repair work across the region.

The remainder of the South East Asian fleet continued to operate in the short-term market predominantly across Malaysia, Thailand, Myanmar and Brunei, where we are seeing increased tendering activity.

Middle East

MMA's Middle Eastern operations performed below expectations during the year with technical issues impacting vessel performance and utilisation. Utilisation for the year averaged 58%. Results for the region were impacted by a one-off provision for doubtful debts amounting to $5.3 million, the collection of which remains a key focus.

MMA currently has four vessels in the Middle East, three operating in Saudi Arabia - MMA Chieftain, MMA Centurion and MMA Cavalier, and the fourth, the MMA Concordia available in the spot market across the Middle East.

The market in the Middle East is currently oversupplied but is poised for a significant increase in activity with Saudi Aramco releasing a number of multiple vessel tenders which should soak up a high proportion of the available vessels in the market.

We are focused on strengthening our local alliances in Saudi Arabia to best position the business to benefit from increased activity in the region.

Africa

The MMA Privilege continues on its long-term accommodation and walk to work scope in West Africa, achieving full utilisation for the year. The contract was recently extended to December 2019 with options to extend further to March 2020.

Activity in Africa is also increasing, with a number of tenders being released and a shortage of available active vessels. MMA's strategy is to move vessels into the region on the back of long-term contracts but does not maintain a spot fleet in the region at present.

Cost control

Cost control remains an ongoing key focus for MMA whilst ensuring we never compromise on the quality or safety of our operations.

We have active programmes in place to monitor the operating costs on our vessels with vessels continuing to be down-manned or laid up between contracts to minimise costs.

We continue to seek efficiencies in procurement to reduce our operating spend. Operating and corporate overheads are strictly monitored in all areas of the business with increased levels of authorisations in place for key discretionary spend categories.

Strategy

MMA has executed a focused strategy during the prolonged market downturn over the past four years. Having rationalised the fleet and invested in our services capability, we have built a strong platform for growth.

Our growth strategy is focused on expanding our service offering in subsea services, project logistics, specialised OSV services and through the charter of strategic third-party vessels with the key focus to drive improved return on assets.

In July 2019, we announced a binding agreement to acquire Neptune Marine Services Limited, a leading provider of topside and subsea inspection, maintenance and repair solutions to the oil and gas, marine and renewable energy industries. The acquisition is consistent with our strategic growth objectives and represents a key milestone in expanding our subsea service offering. The acquisition is expected to enhance our return on assets through adding greater services capability to our vessels. As the offshore market improves, we expect the combined business to benefit from a recovery in offshore and subsea investment. Completion of the acquisition is subject to a number of conditions including Neptune shareholder approval. The transaction is expected to complete in October/November 2019.

We have also established a new project logistics division “MMA Global Projects” and have put in place an experienced management team to drive this business forward, focusing on large-scale logistics management for the LNG and renewables construction sectors.

Balance Sheet

MMA’s Cash at Bank as at 30 June 2019 was $70.2 million and Net Debt (Interest Bearing Liabilities less Cash at Bank) was $200 million.

MMA’s leverage (Net debt to property plant and equipment) was 41.6% making MMA one of the lowest geared OSV companies in the world. MMA also has substantial cash reserves providing stability to our customers, shareholders, financiers and employees.

MMA reviewed the carrying value of its fleet as at 30 June 2019, in line with Australian accounting standards, which resulted in an impairment reversal of $2.7m. This followed an impairment charge of $13.1 million at the half year for a total of $10.4m for the financial year, representing approximately 2% of the book value of vessel assets. This compares to a reversal of previous impairment charges of $8.4m during the year ended 30 June 2018. The valuation of the fleet is expected to continue to fluctuate reflecting prevailing 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.

Health & Safety

MMA maintained its world class safety performance during FY2019. While our Total Recordable Case Frequency (“TRCF”) for FY2019 increased slightly to 0.53 per million hours worked, this remains a significant achievement and well below the industry average of 1.7 as measured by the International Maritime Contractors Association (“IMCA”).

Our internally developed Target 365 Strategy is fully embedded across the organisation and continues to foster a genuine culture of safety consciousness, which drives world class safety performance.

In December 2018, we were awarded the IMCA Global Safety Award for 2018 for our *“Target 365: A perfect day every day*” safety programme which focuses on each person in the organisation coming to work each day with the aim of having a “Perfect Day”, a day without any material incident or recordable injury. This approach makes Target 365 unique, as the initiative not only measures lagging indicators, but also focuses on positive reinforcement by measuring “Perfect Days”.

MMA continues to be an active contributor to global HSEQ forums. In May 2019, MMA was elected as Chair of the IMCA Global HSSE Committee and is an active member of “Safer Together” a key oil and gas safety forum in Australia.

Outlook

There is now a general market consensus that the offshore vessels sector is in recovery. The fundamentals for increased activity are strong, with a large number of projects sanctioned or due for financial investment decisions over the coming two years.

Activity is increasing, and vessel availability has tightened in some sectors of the market, resulting in rate increases for high quality specialised vessels. Global fleet utilisation will need to increase further before we see broad rate rises across the market.

The oversupply of offshore vessels in the market is still seen as an issue although a large proportion of the global fleet which is currently laid up, will likely never return to service.

We expect utilisation to continue to increase across the course of FY2020 with some modest improvement in day rates on our more specialised vessels this financial year.

Cost management remain a strong focus and we will continue to look for opportunities across our core business to reduce costs. The Neptune acquisition is expected to generate cost and revenue synergies although these are only likely to be realised in the latter part of the financial year.

We remain positive on the outlook for a recovery in the offshore sector and in our key markets. MMA's high quality, well maintained fleet, expanded service offering and operational excellence positions us well to benefit from increased demand and higher rates. We expect to see a continuing improvement in EBITDA during FY2020 as the market continues its recovery.

Contacts

For further information, contact:

Mr Jeffrey Weber
Managing Director
Jeff.Weber@mmaoffshore.com
Tel: + 61 8 9431 7431

Mr David Ross
Chief Executive Officer
David.Ross@mmaoffshore.com
Tel: + 65 6265 1010

Mr David Cavanagh
Chief Financial Officer
David.Cavanagh@mmaoffshore.com
Tel: +61 8 9431 7431

MMA OFFSHORE

ABN 21 083 185 693

Preliminary Financial Report and Appendix 4E

for the Year Ended 30 June 2019

Table of Contents

Results for Announcement to the Market

Current Reporting Period: Year ended 30 June 2019
Previous Reporting Period: Year ended 30 June 2018

Earnings	30 June 2019 $'000	30 June 2018 $'000	% Change
Revenue from ordinary activities	239,259	200,444	+19%
Loss before tax	(35,879)	(27,376)	-31%
Loss after tax attributable to members	(37,373)	(27,909)	-34%
Net loss attributable to members	(37,373)	(27,909)	-34%

Information regarding financial results for the year is set out in the covering announcement accompanying this report.

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

Net Tangible Asset Backing	2019	2018
Net tangible asset backing per share	$0.35	$0.38

Details of Entities Where Control Has Been Gained or Lost During the Period
The following changes occurred within the Group during the reporting period. There was no financial impact as a result of these changes:

- Jaya Offshore Services Pte Ltd (Singapore) – deregistered on 14 December 2018 (dormant company);
- MMA Offshore Services Malaysia Sdn Bhd (Malaysia) – incorporated on 12 March 2019 (new company); and
- MMA Global Projects Pte Ltd (Singapore) – incorporated on 15 March 2019 (new joint venture company).

Audit Report
The Preliminary Financial Report is based on financial statements which are in the process of being audited.

There are no likely disputes or qualifications to the accounts.

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Revenue	2.1	239,259	200,444
Investment income		1,278	463
Other (losses)/gains	2.2	(556)	87
Vessel expenses		(238,951)	(206,484)
Administration expenses		(7,402)	(7,092)
Impairment (charge)/reversal	2.1	(10,361)	8,407
Finance costs		(19,146)	(23,201)
Loss before tax		(35,879)	(27,376)
Income tax expense		(1,494)	(533)
Loss for the Year		(37,373)	(27,909)
Other Comprehensive Income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		20,742	13,302
Loss on hedge of net investment in a foreign operation		(8,886)	(6,087)
Other comprehensive income for the year, net of tax		11,856	7,215
Total Comprehensive Loss for the Year		(25,517)	(20,694)
Loss attributable to owners of the Company		(37,373)	(27,909)
Total comprehensive loss attributable to owners of the Company		(25,517)	(20,694)

		Cents Per Share	Cents Per Share
Earnings/(loss) per share			
Basic	2.3	(4.36)	(4.11)

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

Consolidated Statement of Financial Position
As at 30 June 2019

	Note	2019 $'000	2018 $'000
Current Assets			
Cash and cash equivalents	3.1	70,155	69,648
Trade and other receivables	3.2	63,275	61,641
Inventories	3.3	1,974	1,615
Prepayments		1,149	1,062
Assets classified as held for sale	3.4	-	9,397
Total Current Assets		136,553	143,363
Non-Current Assets			
Property, plant and equipment	3.5	482,322	496,421
Total Non-Current Assets		482,322	496,421
Total Assets		618,875	639,784
Current Liabilities			
Trade and other payables	3.7	30,481	32,309
Unearned revenue		831	375
Borrowings	3.8	2,743	1,739
Provisions	3.9	11,354	10,665
Current tax liabilities		1,806	1,186
Customer deposits		160	-
Total Current Liabilities		47,375	46,274
Non-Current Liabilities			
Trade payables		5,296	5,020
Borrowings	3.8	262,807	259,933
Provisions	3.9	152	262
Total Non-Current Liabilities		268,255	265,215
Total Liabilities		315,630	311,489
Net Assets		303,245	328,295
Equity			
Issued capital	4.1	654,735	654,735
Reserves	4.2	133,777	121,454
Accumulated losses		(485,267)	(447,894)
Total Equity		303,245	328,295

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

Year Ended 30 June 2019	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
Loss for the year	-	-	-	-	(37,373)	(37,373)
Other comprehensive income/(loss) for the year	-	-	(8,886)	20,742	-	11,856
Total Comprehensive Income/(Loss) for the Year	-	-	(8,886)	20,742	(37,373)	(25,517)
Recognition of share based payments	-	467	-	-	-	467
Balance at 30 June 2019	654,735	621	(66,176)	199,332	(485,267)	303,245

Year Ended 30 June 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 2017	561,275	1,114	(51,203)	165,288	(419,985)	256,489
Loss for the year	-	-	-	-	(27,909)	(27,909)
Other comprehensive income/(loss) for the year	-	-	(6,087)	13,302	-	7,215
Total Comprehensive Income/(Loss) for the Year	-	-	(6,087)	13,302	(27,909)	(20,694)
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	(4,558)	-	-	-	-	(4,558)
Transfer to issued capital	1,018	(1,018)	-	-	-	-
Recognition of share based payments	-	58	-	-	-	58
Balance at 30 June 2018	654,735	154	(57,290)	178,590	(447,894)	328,295

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

Consolidated Statement of Cash Flows
For the Year Ended 30 June 2019

	Note	2019 $'000	2018 $'000
Cash Flows from Operating Activities			
Receipts from customers		241,305	205,157
Interest received		1,278	463
Payments to suppliers and employees		(202,578)	(189,324)
Income tax paid		(955)	(1,754)
Interest and other costs of finance paid		(16,895)	(16,880)
Net Cash Provided by/(Used in) Operating Activities	3.1	22,155	(2,338)
Cash Flows from Investing Activities			
Payments for property, plant and equipment		(17,501)	(9,194)
Proceeds from sale of property, plant and equipment		7,491	25,288
Deposit for investment in business combination		(5,000)	-
Net Cash Provided by/(Used in) Investing Activities		(15,010)	16,094
Cash Flows from Financing Activities			
Proceeds from issue of shares		-	97,000
Payment of share issue costs		-	(4,558)
Repayment of borrowings		(7,256)	(61,298)
Financing fees on borrowings		(9)	(4,003)
Net Cash Provided by/(Used in) Financing Activities		(7,265)	27,141
Net increase/(decrease) in cash and cash equivalents		(120)	40,897
Cash and cash equivalents at the beginning of the financial year		69,648	28,757
Effects of exchange rate changes on the balance of cash held in foreign currencies		627	(6)
Cash and Cash Equivalents at the End of the Financial Year		70,155	69,648

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

Notes to the Financial Statements
For the year ended 30 June 2019

1. GENERAL NOTES

MMA Offshore Limited (MMA or the Company) is a listed public company incorporated in Australia. Its shares are traded on the Australian Securities Exchange.

1.1 Basis of Preparation

The financial statements have been prepared on the basis of historical cost, except for certain assets which have been impaired and financial instruments that are measured at fair values. Historical cost is generally based on the fair values of the consideration given in exchange for assets.

All amounts are presented in Australian dollars, unless otherwise noted. Transactions in foreign currencies are recognised at the rates of exchange prevailing at the dates of the transactions. Monetary items denominated in foreign currencies at reporting date are translated at the exchange rate prevailing at that date. Exchange differences are recognised in profit or loss in the period in which they arise except for certain hedging transactions as described in note 4.2.

For the purposes of preparing the financial statements, the Company is a for profit entity.

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 financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

1.2 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about carrying values 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.

Critical judgements in applying accounting policies

The following critical judgement has been made by the Directors in the process of applying the Group's accounting policies.

Allowance for doubtful debts and significant increase in credit risk – refer note 3.2

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Calculation of loss allowance – refer note 3.2
Useful lives of property, plant and equipment – refer note 3.5
Impairment of property, plant and equipment – refer note 3.6

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 reportable segment:

	2019 $'000	2018 $'000
Vessels		
Revenue from external customers	239,259	200,444
Segment profit/(loss) before impairment	308	(6,040)
Impairment (charge)/reversal	(10,361)	8,407
Segment profit/(loss) after impairment	(10,053)	2,367
Investment income	1,278	463
Other gains/(losses)	(556)	87
Administration costs	(7,402)	(7,092)
Finance costs	(19,146)	(23,201)
Loss for the year before income tax	(35,879)	(27,376)

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:

	2019 $'000	2018 $'000
Revenue recognition:		
Revenue Region		
Australia	159,256	142,155
International	80,003	58,289
Total	239,259	200,444

Segment Assets

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

	2019 $'000	2018 $'000
Vessel segment assets[(i)]	539,763	566,129
Unallocated assets	79,112	73,655
Total	618,875	639,784

(i) Vessel segment assets include vessels held for sale (refer note 3.4).

2.1 Segment Information (continued)

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

Other Segment Information

	Depreciation and amortisation		Additions to non-current assets	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Vessel assets	34,766	31,300	10,341	9,108
Unallocated assets	553	603	44	86
Total	35,319	31,903	10,385	9,194

Impairment charges/(reversals)

In addition to the depreciation charges reported above, the Group also recognised impairment charges/(reversals) (see note 3.6) in respect of vessels as set out below:

	2019 $'000	2018 $'000
Vessels held for continuing operations	8,254	(8,236)
Vessels held for sale	2,107	(171)
Total	10,361	(8,407)

Geographical Information

The Group is based in two principal geographical areas – Australia (country of domicile) and Singapore, however the fleet is traded around the world as a single fleet and moves between all geographical areas.

During the year, the Group operated vessels in a number of countries outside Australia. The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed in the following table:

	Revenue from external customers		Non-current assets	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Location				
Australia	159,256	142,155	176,327	183,478
International	80,003	58,289	305,995	312,943
Total	239,259	200,444	482,322	496,421

Information about major customers for continuing operations

Included in revenues arising from vessel services are revenues of approximately $35.0 million (2018: $28.8 million) which arose from sales to the Group's largest customer, revenues of approximately $31.2 million (2018: $25.9 million) which arose from sales to the Group's second largest customer and revenues of approximately $29.3 million (2018: $22.1 million) which arose from sales to the Group's third largest customer.

2.2 Other Income and Expenses	2019 $'000	2018 $'000
Profit/(loss) for the year has been arrived at after recognising the following specific amounts		
Other gains and losses:		
Net foreign exchange losses	(402)	(272)
Profit/(loss) on disposal of property, plant and equipment	57	(160)
Profit/(loss) on disposal of assets held for sale	(211)	519
Total	(556)	87
Depreciation:		
Leasehold buildings and improvements	89	90
Vessels at cost	34,218	30,910
Plant and equipment	1,012	903
Total	35,319	31,903
Impairment charges:		
Impairment charge recognised on trade receivables	6,462	1,251
Impairment charge/(reversal) recognised on vessel cash generating unit	10,361	(8,407)
Employee benefits:		
Post-employment benefits:		
Defined contribution plans	9,115	7,765
Share based payments:		
Equity settled share based payments	467	58
Other employee benefits	97,255	95,502
Total	106,837	103,325

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

2.3 Earnings per Share

The calculation of basic earnings per share is based on the following data:

	2019 $'000	2018 $'000
Loss for the year used in the calculation of basic earnings per share	(37,373)	(27,909)

	2019 No.'000	2018 No.'000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	858,077	678,468

2.4 Dividends Provided for or Paid

No dividends have been provided for or paid during the current year.

	2019 $'000	2018 $'000
Adjusted franking account balance	47,589	47,589

3. ASSETS AND LIABILITIES

3.1 Cash

Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks.

	2019 $'000	2018 $'000
Cash and cash equivalents	70,155	69,648

Reconciliation of loss for the year to net cash flows from operating activities		
Loss for the year	(37,373)	(27,909)
Depreciation of non-current assets	35,319	31,903
Impairment charge/(reversal) of non-current assets	10,361	(8,407)
Amortisation of borrowing costs	2,258	3,354
(Gain)/loss on sale of property, plant and equipment	(57)	160
(Gain)/loss on sale of assets held for sale	211	(519)
Unrealised foreign exchange loss	249	263
Allowance for bad and doubtful debts	6,454	1,256
Equity settled share based payment	467	58
Change in net assets and liabilities:		
Decrease in trade and other receivables	1,512	4,448
(Increase)/decrease in prepayments	(60)	199
(Increase)/decrease in inventories	(341)	1,433
Increase/(decrease) in current tax balances	539	(1,221)
Increase/(decrease) in provisions	890	(72)
Increase/(decrease) in trade and other payables	1,269	(7,551)
Increase in unearned revenue	457	267
Net cash flows Provided by/(Used in) operating activities	22,155	(2,338)

3.2 Trade and Other Receivables	2019 $'000	2018 $'000
Trade receivables	61,257	57,602
Loss allowance	(9,179)	(2,624)
Other receivables (i)	11,197	6,663
Total	63,275	61,641

(i) Other receivables includes an amount of $5 million paid as a deposit for investment in a business combination. Refer to note 5.1 for further details.

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.

The Group writes off a trade receivable when there is information indicating that the debtor is in significant financial difficulty and there is no realistic prospect of recovery. Subsequent recoveries of amounts previously written off are credited against the allowance account.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses ("ECL") in two categories.

1. Where there has been no significant increase in credit risk since initial recognition, ECL's are collectively estimated using a provision matrix based on the Group's historical credit loss experience adjusted for factors that are specific to geographic region, general economic conditions and an assessment of current and forecast conditions at reporting date. This has resulted in ECL's being applied to debtors aged over 60 days in our international business.

2. Where there has been a significant change in credit risk, ECL's are individually estimated. This assessment is adjusted for factors that are specific to the debtor including their financial capacity to make payment, discussions with the debtor on the status of the receivable and any other information relevant to the assessment of the recoverability.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach set out in AASB 9:

	Collectively Assessed $'000	Individually Assessed $'000	Total $'000
Balance as at 30 June 2018	-	2,624	2,624
Transfer to credit-impaired	231	6,231	6,462
Foreign exchange gains and losses	-	93	93
Balance as at 30 June 2019	231	8,948	9,179

3.3 Inventories	2019 $'000	2018 $'000
Fuel – at cost	1,834	1,289
Consumables	140	326
Total	1,974	1,615

Inventories are stated at the lower of cost or net realisable value.

3.4 Assets Classified as Held for Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount or fair value less costs to sell. An impairment loss is recognised for any initial write-down of the asset to fair value less costs to sell. Information regarding the assets held for sale in the Statement of Financial Position is presented below.

At 30 June 2019, the carrying value of the vessel not yet sold was nil (2018: $9.4 million), refer to Note 3.6.

3.5 Property, Plant and 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 2017	13,946	1,015,760	16,056	1,045,762
Additions	109	8,977	108	9,194
Disposals	(46)	(87,981)	(131)	(88,158)
Net currency exchange differences	(13)	16,001	432	16,420
Balance at 1 July 2018	13,996	952,757	16,465	983,218
Additions	-	10,341	44	10,385
Disposals	(32)	-	(392)	(424)
Net currency exchange differences	799	61,406	874	63,079
Balance at 30 June 2019	14,763	1,024,504	16,991	1,056,258
Accumulated depreciation:				
Balance at 1 July 2017	(12,521)	(522,943)	(11,912)	(547,376)
Disposals	44	87,981	3	88,028
Impairment reversal	-	8,236	-	8,236
Depreciation expense	(90)	(30,910)	(903)	(31,903)
Net currency exchange differences	(186)	(3,331)	(265)	(3,782)
Balance at 1 July 2018	(12,753)	(460,967)	(13,077)	(486,797)
Disposals	28	-	273	301
Impairment charge	-	(10,361)	-	(10,361)
Depreciation expense	(89)	(34,218)	(1,012)	(35,319)
Net currency exchange differences	(762)	(40,376)	(622)	(41,760)
Balance at 30 June 2019	(13,576)	(545,922)	(14,438)	(573,936)
Net book value:				
As at 30 June 2018	1,243	491,790	3,388	496,421
As at 30 June 2019	1,187	478,582	2,553	482,322

Leasehold buildings and improvements, vessels and plant and equipment are stated at cost less, where applicable, accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the item.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives. Leasehold buildings and improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period. Vessels are generally depreciated over 25 years on a straight line basis. Vessel refits and dry docks are depreciated over 5 years.

3.5 Property, Plant and Equipment (continued)

Key Source of estimation uncertainty

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. At the end of this reporting period, the Directors have determined that there was no adjustment required to the Group's property, plant and equipment's useful lives.

3.6 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.

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 (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

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.

Key Source of estimation uncertainty

Determining whether assets are impaired requires an estimate of the recoverable value of the assets. In order to determine the recoverable value of the assets in the current year, a Fair Value less Cost of Disposal (FVLCOD) approach was used (2018: FVLCOD approach). The FVLCOD method requires an estimate of the current market value of the assets and the costs that would be associated with a disposal of the assets. In estimating the current market value of the assets, the Group engaged experienced and qualified valuers to perform valuations.

The Group performs its impairment testing annually on 30 June each year. In addition, market conditions are monitored for indications of impairment for all of the Group's operating assets. Where an indication of impairment is identified, a formal impairment assessment is performed.

The Group has identified the following indicators of impairment at 30 June 2019:

- 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 amounts of the Vessels Cash-Generating Unit ('CGU').

Impairment testing

The Group has evaluated whether the recoverable amount of each 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. In all instances, the FVLCOD method was used for the purpose of impairment testing on 30 June 2019.

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

			Impairment charge/(reversal)	
Segment/CGU	Class of asset	Method	2019 $'000	2018 $'000
Vessels	Property, Plant & Equipment	FVLCOD	8,254	(8,407)
Vessels	Assets classified as held for sale	FVLCOD	2,107	-
Total			10,361	(8,407)

3.6 Impairment of Non-current Assets (continued)

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	482,322	482,322

(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 be in the early stages of recovery with increasing activity and a tightening in the market for high specification vessels. Sector sentiment has improved around a recovery in the broader oil and gas market with key industry commentators indicating that the market may have now bottomed. We expect the recovery to be volatile and timing is still uncertain. The uncertainty is highlighted by the decline in oil price in November 2018 and again in June 2019. 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 variability in the oil 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 expected downturn, eliminating some of the supply overhand.

As disclosed in note 3.4, a group of non-core vessels in the fleet were classified as being held for sale as at 31 December 2016. This classification has resulted in 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.

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.

The following factors were taken into account in determining this value:

- the movement in the oil price during the period
- an increase in project and development commitments by the oil and gas majors
- increasing tender opportunities in the market
- acknowledging the increased activity in the industry is still at an early stage in the market cycle and there is uncertainty about the extent and timing of recovery
- acknowledging the impact of the significant vessel tonnage in the industry

A 2.5% increase or decrease in the ‘en bloc discount rate would result in a corresponding $14 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.

3.6 Impairment of Non-Current Assets (continued)

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 current 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.

3.7 Trade and Other Payables	2019 $'000	2018 $'000
Trade payables	8,608	5,017
Other payables and accruals	20,563	26,379
Goods and services tax payable	1,310	913
Total	30,481	32,309

The average credit period on purchases of all goods is 30 days. The Group monitors payments to ensure that all payables are paid within the credit time frame.

3.8 Borrowings	2019 $'000	2018 $'000
Secured – at amortised cost		
Current		
Hire purchase liability(i)	4	6
Bank loans(ii)	5,000	3,992
Unamortised loan fees(iii)	(2,261)	(2,259)
Total	2,743	1,739
Non-Current		
Hire purchase liability(i)	-	4
Bank loans(ii)	265,634	265,009
Unamortised loan fees(iii)	(2,827)	(5,080)
Total	262,807	259,933

Summary of borrowing arrangements:

(i) The hire purchase liabilities are fixed interest rate debt with repayment periods not exceeding 3 years. The current weighted average interest rate on the hire purchase liabilities is 2.9% (2018: 2.9%).

(ii) The Group renegotiated the terms of its Syndicated Debt Facility with its existing lenders during the comparative period.

The amortisation profile of the facility is:

- $5.0 million by 30 June 2020
- $7.5 million by 31 December 2020
- $7.5 million by 30 June 2021
- The balance is to be repaid on maturity at 30 September 2021

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

The current weighted interest rate on the bank loans is 5.99% at 30 June 2019 (2018: 6.08%).

3.8 Borrowings (continued)

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

Other financial liabilities including borrowings are initially measured at fair value, net of transaction costs.

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 or payable is recognised in the profit and loss.

Available borrowing facilities	2019 $'000	2018 $'000
Secured loan facilities with various maturity dates through to 2021 and which may be extended by mutual agreement:		
Amount used	270,634	269,001
Amount unused	-	-
Total	270,634	269,001

Reconciliation of 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.

2019	Hire purchase liability $'000	Bank loans $'000	Unamortised loan fees $'000	Total $'000
Balance at 1 July 2018	10	269,001	(7,339)	261,672
Financing cashflows	(6)	(7,252)	(9)	(7,267)
Non-cash foreign exchange movement	-	8,885	-	8,885
Other changes	-	-	2,260	2,260
Balance at 30 June 2019	4	270,634	(5,088)	265,550

2018				
Balance at 1 July 2017	13	324,209	(9,770)	314,452
Financing cashflows	(3)	(61,295)	(4,003)	(65,301)
Non-cash foreign exchange movement	-	6,087	-	6,087
Other changes	-	-	6,434	6,434
Balance at 30 June 2018	10	269,001	(7,339)	261,672

3.9 Provisions	2019 $'000	2018 $'000
Current		
Employee benefits – annual leave	6,852	6,352
Employee benefits – long service leave	4,502	4,313
Total	11,354	10,665
Non-current		
Employee benefits – long service leave	152	262

3.9 Provisions (continued)

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave in the period the related service is performed.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

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 reporting date, 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.

4. CAPITAL STRUCTURE

4.1 Issued Capital

Fully Paid Ordinary Shares	2019 No.'000	2019 $'000	2018 No.'000	2018 $'000
Balance at beginning of financial year	858,077	654,735	373,077	561,275
Issue of shares under institutional placement	-	-	111,923	22,385
Issue of shares under institutional entitlement offer	-	-	78,027	15,605
Issue of shares under retail entitlement offer	-	-	295,050	59,010
Share issue costs	-	-	-	(4,558)
Transfer employee equity settled benefits reserve	-	-	-	1,018
Balance at end of financial year	858,077	654,735	858,077	654,735

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share Rights

As at 30 June 2019, executives and employees held rights over 13,207,075 ordinary shares (2018: 9,555,660) in aggregate.

Share rights granted under the employee share rights plans carry no right to dividends and no voting rights.

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.

4.2 Reserves	2019 $'000	2018 $'000
Employee equity settled benefits	621	154
Hedging	(66,176)	(57,290)
Foreign currency translation	199,332	178,590
Balance at end of financial year	133,777	121,454

The employee equity settled benefits reserve arises on the grant of share rights to executives and employees under the Company's share rights plans. Amounts are transferred out of the reserve and into issued capital when the rights vest or expire.

The hedging reserve is used to record gains and losses on hedges designated as cash flow hedges including hedges of net investments in a foreign operation. Gains and losses accumulated in the hedge reserve are taken to the profit or loss when the hedged transaction impacts the profit or loss, or is included as an adjustment to the initial carrying amount of the hedged item. For a net investment in a foreign operation any gains and losses are taken to profit or loss on disposal of the foreign operation.

The assets and liabilities of the Group's foreign operations are translated into Australian Dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised through other comprehensive income and recognised in equity.

On the disposal of the foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss.

5. OTHER NOTES

5.1 Events After the Reporting Period

Other than those listed below, there has not been any matter or circumstance that occurred subsequent to the end of the financial 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.

As announced on 24 July 2019, MMA has entered into a contract for the acquisition of the business of Neptune Marine Services Limited ("NMS") key operating subsidiaries, for an expected total consideration of $18.5 million comprising $5 million in cash plus approximately $13.5 million in MMA shares. Completion of the acquisition is subject to a number of conditions including NMS shareholder approval.

5.2 Other Accounting Policies

(a) Adoption of New and Revised Accounting Standards and Interpretations

In the current year, the Group has applied the following new and amended AASB's that are mandatorily effective for an accounting period that begins on or after 1 July 2018.

<u>AASB 9 *Financial Instruments*</u>

The Group adopted AASB 9 on 1 July 2018.

As the Group elected not to restate comparatives, for the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognised at date of initial application (i.e. 1 July 2018), the directors have compared the credit risk of the respective financial instruments on the date of their initial recognition to their credit risk as at 1 July 2018.

There were no additional credit losses to recognise at 1 July 2018 as the company had fully impaired all trade receivables at 30 June 2018. Moreover, there has been no significant impact during the reporting period due to the new standard.

<u>AASB 15 *Revenue from Contracts with Customers*</u>

The Group adopted AASB 15 on 1 July 2018.

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.

(b) New and amended Accounting Standards and Interpretations issued but not yet effective

<u>AASB 16 *Leases*</u>

The Group adopted AASB 16 on 1 July 2019.

On initial adoption of the standard, the group will recognise a Right of Use asset and lease liability of $4.1million on its Statement of Financial Position.

Operating lease expenses will no longer be recognised in the calculation of Profit/(Loss) before tax, but will be replaced by depreciation of Right of Use assets and lease finance costs.