# MERMAID MARINE AUSTRALIA LIMITED

## 2012 HALF YEAR FINANCIAL REPORT

### MMA CONTINUES TO DELIVER STRONG EARNINGS GROWTH

The Directors of Mermaid Marine Australia Ltd ("MMA") (ASX: MRM) are pleased to announce a 39% increase in pre-tax profit to $37.6 million for the six months ended 31 December 2011.

The result was driven primarily by an exceptional performance from the Australian vessel fleet, as investment in additional vessels and the successful tendering and execution of a number of short term projects resulted in higher revenue and earnings.

Cash flow from operations during the period was strong and the Company finished the first half with a healthy cash balance and low gearing.

**Financial Highlights**

| | Half year ended 31 Dec 2011 | Half year ended 31 Dec 2010 | Variance on PCP |
|---|---|---|---|
| **Revenue** | $193.1M | $134.5M | ↑44% |
| **EBITDA** | $55.3M | $41.3M | ↑34% |
| **Profit before Tax** | $37.6M | $27.0M | ↑39% |
| **NPAT** | $27.6M | $20.4M | ↑35% |
| **EPS** | 12.8c | 10.5c | ↑22% |
| **Interim Dividend** | 5.0c | 4.0c | ↑25% |

Commenting on the result, MMA's Chairman, Mr Tony Howarth said:

"The Australian Oil and Gas market remains buoyant, driving demand for MMA's services and delivering strong earnings growth.

"Competition however, continues to increase as international vessel operators move in to take advantage of strong activity in the region.

"Doing business in the North West of Australia continues to present its challenges, with increasing costs and industrial action on the Dampier Supply Base impacting our first half result.

"MMA, with its modern fleet and recently expanded Supply Base offering, remains well placed to continue to grow earnings and benefit from activity in the region."

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

"The Company delivered a strong first half result.

"Our vessel business had an exceptional first half performance, with strong utilisation across the fleet, particularly on our larger vessels.

"The Company successfully completed a number of significant short term projects during the first half, boosting earnings for the period.

"The Dampier Supply Base experienced lower earnings in the first half. However, activity is expected to increase in the second half, with a number of drilling campaigns planned, which will increase activity across the wharf. In addition, a new three year Enterprise Bargaining Agreement was finalised for the Dampier Supply Base in November 2011, bringing an end to protracted industrial activity and uncertainty for MMA's customers. MMA expects a stronger second half performance from the Supply Base as a result.

"The Company remains well positioned in the Australian market and continues to bid new work on a range of major new projects in the pipeline.

"Overall, our FY2012 performance is expected to deliver continuing growth."

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MERMAID MARINE AUSTRALIA LTD

ABN 21 083 185 693

# Financial Report and Appendix 4D for the Half Year Ended 31 December 2011

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## Results for Announcement to the Market

**Current Reporting Period:** Half year ended 31 December 2011
**Previous Reporting Period:** Half year ended 31 December 2010

| Earnings | % Change | Amount $'000 |
|---|---|---|
| Revenue from ordinary activities | 43.6% | 193,085 |
| Profit before tax | 39.2% | 37,607 |
| Profit from ordinary activities after tax attributable to members | 35.5% | 27,631 |
| Net profit attributable to members | 35.5% | 27,631 |

Information regarding the increase in revenue and profit 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 | Amount per share | Franked Amount per share |
|---|---|---|
| Interim dividend for 2012 | 5 cents | 5 cents |
| Interim dividend for 2011 | 4 cents | 4 cents |
| Final dividend for 2011 | 5 cents | 5 cents |

The Company has declared a fully franked interim dividend with respect to the year ended 30 June 2012 of 5 cents per share.

The Company paid a final fully franked dividend for the 2011 financial year of 5 cents per share on 23 September 2011.

The record date for entitlement to the interim dividend is 2 March 2012.
The payment date for the interim dividend is 23 March 2012.

**Dividend reinvestment plan**

The Company has in place a dividend reinvestment plan (DRP) which shareholders can elect to participate in.

The subscription price for shares issued under the DRP will be the average of the daily volume weighted average sale price of the Company's shares sold on the ASX during the 5 trading days immediately after the record date for the dividend less a 2.5% discount.

Elections to participate in the DRP for the dividend to be paid on 23 March 2012 must be received by the Company's share registry, Computershare Investor services Pty Ltd, by the record date of 2 March 2012.

| Net Tangible Asset Backing | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| Net tangible asset backing per share | $1.30 | $1.21 |

**Details of Entities Where Control Has Been Gained or Lost During the Period**

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 Mermaid Marine Australia Limited (MMA) submit herewith the Financial Report of the Company for the half year ended 31 December 2011. 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 J Howarth AO
- Mr J A Weber
- Mr J H Carver
- Mr M F Bradley
- Mr H A Edwards

*Dividends*

Full details with respect to the dividends are set out on page 3 of this Financial Report.

*Auditor's Independence Declaration*

The Auditor's Independence Declaration is included on page 7 of this Financial Report.

*Rounding off of Amounts*

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the Half Year Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

<u>Review of Operations</u>

The Company continued to deliver strong growth in earnings in the first half of the 2012 financial year.

As compared to the previous corresponding period:

- Revenue increased by 44% to a total of $193.1 million
- Profit before tax increased by 39% to $37.6 million
- Net profit after tax (NPAT) increased by 35% to $27.6 million
- Earnings per share (EPS) increased by 22% to 12.8c
- The Board approved a fully franked interim dividend of 5 cents per share, up from 4 cents per share for the interim dividend for the 2011 financial year.

The improved first half performance was driven primarily by the Australian vessel operations as investment in additional vessels and the successful tendering and execution of a number of short term projects resulted in higher revenue and earnings.

The Dampier Supply Base performance was subdued as a result of protracted industrial disputation, increasing costs and delays in drilling activity. However, earnings from this business are expected to improve in the second half.

Cash flow from operations was strong and the Company finished the first half with a healthy cash balance and low gearing.

*Vessel Operations*

As compared to the previous corresponding period:

- Revenue from vessel operations increased by 55% to $155.8 million
- EBIT increased by 52% to $33.6 million

**Directors' Report**

Review of Operations (continued)

Our Vessels division performed strongly during the first half. Utilisation was high across the fleet at 77% and particularly strong on our larger vessels. The Company completed a number of significant short term projects during the first half, one being a major seismic project for Geokinetics in the Browse Basin and the others related to construction activities in the north west of Australia. The Geokinetics Project involved MMA chartering and operating a large Dive Support Vessel as primarily an accommodation and work platform for the project. The project was completed successfully with an excellent safety record and is a testament to the depth of marine expertise within the Company.

The Company remains active on the Gorgon Project with a number of vessels currently on charter. The Gorgon Project is such that the number of vessels will fluctuate as different scopes of work commence and complete throughout the construction phase. For example, a total of five vessels involved in the water scope in the first half are no longer engaged on the project, however our harbour support and cargo tugs and barges remain active.

The Company was also recently awarded a contract by Sapura Acergy for three vessels to support the Montara Development Project, which is currently in progress.

MMA continues to invest in its fleet with two new OSV's under construction. The first will be delivered in April 2012 and the second in November 2012. The first vessel will go into a long term (3 year) production support contract with Woodside, which is already underway with a front running vessel.

In line with its Strategic Plan, MMA expanded into the Platform Supply Vessel (PSV) market with the purchase of the "Mermaid Leveque" a new 75 metre PSV in June 2011. The PSV is the second of its type in MMA's fleet and significantly expands MMA's capability in offshore drilling and construction support. Since commencing operations in October 2011, the Leveque has completed a spool delivery contract for the Montara Project and recently commenced a 12 month pipelay support contract with Allseas. During the first half, MMA also entered into a contract to build one new STX05 PSV with an option to purchase a second vessel. This PSV will be built in Singapore and is due to deliver in late 2013. MMA continues to consider other opportunities to expand the PSV fleet and these vessels remain a key part of the Company's ongoing growth strategy.

Internationally, the Mermaid Vigilance is continuing its contract in Mexico with Geokinetics. The Mermaid Discovery and Mermaid Vanquish recently completed work on a seismic project with Geokinetics in Brunei. The international market remains challenging with charter rates still relatively low and ongoing oversupply of some vessels. This is expected to improve over the next 12 months and in the interim, MMA is continuing to invest in growing the capability of its Singapore Office.

*Supply Bases*

As compared to the previous corresponding period:

- Revenue from Supply Base operations increased by 20% to $33.3 million
- EBIT decreased by 8% to $13.1 million

The Dampier Supply Base was impacted by the industrial action taken by the Maritime Union of Australia (MUA) during the first half, whilst a new Enterprise Bargaining Agreement was being negotiated. The strike action resulted in the Base being shut down for a total of 14 days and also meant that some customers made alternative arrangements whilst the EBA negotiations were ongoing. The EBA was finalised in November 2011 and is effective for three years through to 30 June 2014, ensuring no protected industrial action is permitted during that period.

Activity is expected to pick up again in the second half with Chevron, Exxon Mobil, Hess, BHPB, Santos and Apache all expected to undertake drilling operations.

Activity relating to the Gorgon Project remained strong and a recent variation to the current contract was signed with KJVG for the provision of additional supply base services. This will mean another 20 dedicated Gorgon staff on the site resulting in an increase in cargo throughput.

## Directors' Report

Review of Operations (continued)

In December 2011, MMA completed the acquisition of the Bis Industries Dampier Supply Base adjacent to MMA's existing Dampier Supply Base facility. The Bis area covers an area of 11.7 hectares and comprises open laydown area, undercover storage and office space. The acquisition increases MMA's total Supply Base land area in Dampier by approximately 60%. MMA intends to use the newly acquired facility to support new and existing oil and gas clients in the North West Shelf. Early demand for the additional land and facilities has been strong. MMA will concentrate on optimising the land usage and bedding down the new business over the course of the second half. This business is expected to contribute more significantly in FY2013.

Activity in the Browse Basin continued to be soft during the first half as Conoco Phillips' drilling programme was delayed and is now scheduled to commence in Feb 2012. The Broome business remains integral to MMA's longer term strategy with a number of large projects in the pipeline for the region. INPEX's $34 billion Ichthys Project recently received FID and Shell recently sanctioned its Prelude FLNG Project and has awarded MMA (through its joint venture company Toll Mermaid Logistics Broome) a 5 year supply base services contract in Broome to support the project's development drilling programme.

MMA was also recently awarded an extension to its current Gorgon Stevedoring Services contract to provide supply base services out of Broome. MMA will engage Toll Mermaid Logistics Broome to provide the services. Contracts are now being finalised and upgrade works are underway to carry out the scope of work. The contract is for a term of approximately 2 years and is expected to make a contribution to earnings in the last quarter of FY2012.

*Slipway*

The Dampier Slipway had a softer first half performance. Revenue was down approximately 17% on the same period last year to $9.5 million and EBIT was down 67% to $0.4 million.

Stronger utilisation is expected in the second half with a number of large jobs scheduled.

The Slipway remains a key factor in the ongoing success of our vessel business enabling our fleet to be docked and maintained conveniently, thus reducing the amount of time off-charter.

*Outlook*

The Company delivered substantial growth in earnings for the first half of the 2012 financial year with an exceptional performance from the Vessel business balancing lower earnings at the Supply Base and Slipway.

Looking forward, with a number of short term Australian vessel related projects completed in the first half, combined with lower rates being experienced in the international vessel market, a softer second half performance from the fleet is anticipated. This will be offset to some degree by an expected improvement in Supply Base earnings both in Dampier and Broome.

The Company remains well positioned in the Australian market and continues to bid new work on a range of major new projects in the pipeline. The overall FY2012 performance will once again be one of continuing growth.

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

On behalf of the Directors

**TONY HOWARTH AO**
Chairman

Perth, 15 February 2012

## Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Mermaid Marine Australia Limited
1 Mews Road
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15 February 2012

Dear Board Members

**Mermaid Marine Australia 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 Mermaid Marine Australia Limited.

As lead audit partner for the review of the financial statements of Mermaid Marine Australia Limited for the half-year ended 31 December 2011, 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**

Kathleen Bozanic

**Kathleen Bozanic**
Partner
Chartered Accountants

**Audit Review Report**

Deloitte.

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# Independent Auditor's Review Report to the Members of Mermaid Marine Australia Limited

We have reviewed the accompanying half-year financial report of Mermaid Marine Australia Limited, which comprises the condensed statement of financial position as at 31 December 2011, and the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed 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 as set out on pages 10 to 26.

*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 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 Mermaid Marine Australia Limited's financial position as at 31 December 2011 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 Mermaid Marine Australia 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.

*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 Mermaid Marine Australia Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

## Audit Review Report (continued)

Deloitte.

*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 Mermaid Marine Australia 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 2011 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**

Kathleen Bozanic

**Kathleen Bozanic**
Partner
Chartered Accountants
Perth, 15 February 2012

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## 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

**TONY HOWARTH AO**
Chairman

Perth, 15 February 2012

## Condensed consolidated statement of comprehensive income for the half year ended 31 December 2011

| | Note | Half year ended 31 Dec 2011 $'000 | Half year ended 31 Dec 2010 $'000 |
|---|---|---|---|
| Revenue | 3(a) | 193,085 | 134,495 |
| Interest Income | | 913 | 758 |
| Other losses | 3(b) | (124) | (296) |
| Share of profits / (losses) of associates | | 22 | (9) |
| Vessel expenses | | (122,172) | (78,135) |
| Supply base expenses | | (18,665) | (11,943) |
| Slipway expenses | | (4,512) | (6,941) |
| Administration expenses | | (6,505) | (4,993) |
| Finance costs | 3(c) | (4,435) | (5,921) |
| **Profit before tax** | | **37,607** | **27,015** |
| Income tax expense | 5 | (9,976) | (6,622) |
| **Profit for the period** | | **27,631** | **20,393** |
| | | | |
| **Other comprehensive income** | | | |
| Exchange differences on translation of foreign operations | | 7,316 | (18,647) |
| Gain/(Loss) on cash flow hedges | | 121 | (468) |
| Income tax relating to components of other comprehensive income | | - | 140 |
| **Other comprehensive income for the period (net of tax)** | | **7,437** | **(18,975)** |
| | | | |
| **Total comprehensive income for the period** | | **35,068** | **1,418** |
| | | | |
| **Profit attributable to owners of the parent** | | **27,631** | **20,393** |
| | | | |
| **Total comprehensive income attributable to owners of the parent** | | **35,068** | **1,418** |
| | | | |
| **Earnings per share** | | | |
| - Basic (cents per share) | 4 | 12.75 | 10.46 |
| - Diluted (cents per share) | 4 | 12.49 | 10.27 |

The accompanying notes form part of these half year financial statements.

## Condensed consolidated statement of financial position as at 31 December 2011

| | Note | 31 Dec 2011 $'000 | 30 June 2011 $'000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | | 52,460 | 55,090 |
| Trade and other receivables | 6 | 73,701 | 64,396 |
| Inventories | | 1,686 | 2,153 |
| Other | 7 | 9,272 | 5,278 |
| **Total Current Assets** | | **137,119** | **126,917** |
| | | | |
| **Non-Current Assets** | | | |
| Investments accounted for using the equity method | 8 | 4,681 | 4,659 |
| Other financial assets | | 750 | 750 |
| Property, plant and equipment | 9 | 357,335 | 334,684 |
| Goodwill | 17 | 20,104 | - |
| **Total Non-Current Assets** | | **382,870** | **340,093** |
| **Total Assets** | | **519,989** | **467,010** |
| | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 10 | 29,724 | 23,275 |
| Unearned revenue | | 4,179 | 7,708 |
| Borrowings | 11 | 23,882 | 30,260 |
| Other financial liabilities | | 1,491 | 1,612 |
| Provisions | 12 | 4,960 | 4,216 |
| Current tax liabilities | | 7,101 | 10,958 |
| **Total Current Liabilities** | | **71,337** | **78,029** |
| | | | |
| **Non-Current Liabilities** | | | |
| Unearned revenue | | 3,876 | 5,262 |
| Borrowings | 11 | 131,411 | 104,085 |
| Provisions | 12 | 1,115 | 942 |
| Deferred tax liabilities | | 9,510 | 8,966 |
| **Total Non-Current Liabilities** | | **145,912** | **119,255** |
| **Total Liabilities** | | **217,249** | **197,284** |
| **Net Assets** | | **302,740** | **269,726** |
| | | | |
| **Equity** | | | |
| Issued capital | 13 | 192,728 | 186,416 |
| Reserves | 14 | (17,314) | (27,159) |
| Retained earnings | 15 | 127,326 | 110,469 |
| **Total Equity** | | **302,740** | **269,726** |

The accompanying notes form part of these half year financial statements.

## Condensed consolidated statement of changes in equity for the half year ended 31 December 2011

| | Ordinary Shares | Employee equity settled benefits reserve | Hedging Reserve | Foreign Currency Translation Reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balance at 1 July 2010** | **112,954** | **1,676** | **-** | **(2,811)** | **85,234** | **197,053** |
| Profit for the period | - | - | - | - | 20,393 | 20,393 |
| Other comprehensive income for the period | - | - | (328) | (18,647) | - | (18,975) |
| **Total comprehensive income for the period** | **-** | **-** | **(328)** | **(18,647)** | **20,393** | **1,418** |
| Recognition of share based payments | - | 1,375 | - | - | - | 1,375 |
| Shares issued | 68,384 | - | - | - | - | 68,384 |
| Share issue cost | (1,124) | - | - | - | - | (1,124) |
| Dividends Paid | - | - | - | - | (9,364) | (9,364) |
| Deferred income tax benefit | 337 | - | - | - | - | 337 |
| **Balance at 31 December 2010** | **180,551** | **3,051** | **(328)** | **(21,458)** | **96,263** | **258,079** |
| **Balance at 1 July 2011** | **186,416** | **2,165** | **(1,612)** | **(27,712)** | **110,469** | **269,726** |
| Profit for the period | - | - | - | - | 27,631 | 27,631 |
| Other comprehensive income for the period | - | - | 121 | 7,316 | - | 7,437 |
| **Total comprehensive income for the period** | **-** | **-** | **121** | **7,316** | **27,631** | **35,068** |
| Recognition of share based payments | - | 913 | - | - | - | 913 |
| Shares issued | 6,312 | - | - | - | - | 6,312 |
| Dividends Paid | - | - | - | - | (10,774) | (10,774) |
| Deferred income tax benefit | - | 1,495 | - | - | - | 1,495 |
| **Balance at 31 December 2011** | **192,728** | **4,573** | **(1,491)** | **(20,396)** | **127,326** | **302,740** |

The accompanying notes form part of these half year financial statements.

## Condensed consolidated statement of cash flows for the half year ended 31 December 2011

| | Note | Half year ended 31 Dec 2011 $'000 | Half year ended 31 Dec 2010 $'000 |
|---|---|---|---|
| **Cash flows from Operating Activities** | | | |
| Receipts from customers | | 201,191 | 121,940 |
| Interest received | | 831 | 413 |
| Payments to suppliers and employees | | (150,516) | (96,131) |
| Income tax paid | | (12,258) | (2,788) |
| Interest and other costs of finance paid | | (4,404) | (5,921) |
| **Net cash provided by Operating Activities** | | **34,844** | **17,513** |
| **Cash flows from Investing Activities** | | | |
| Payments for property, plant and equipment | | (29,930) | (25,210) |
| Proceeds from sale of property, plant and equipment | | 56 | - |
| Purchase of business | 17(d) | (12,000) | - |
| **Net cash used in Investing Activities** | | **(41,874)** | **(25,210)** |
| **Cash flows from Financing Activities** | | | |
| Proceeds from issue of shares | | 1,677 | 63,606 |
| Payment for share issue costs | | - | (107) |
| Proceeds from borrowings | | 115,018 | 800 |
| Repayment of borrowings | | (106,149) | (9,717) |
| Dividends paid | | (6,168) | (5,604) |
| **Net cash provided by Financing Activities** | | **4,378** | **48,978** |
| Net increase / (decrease) in cash and cash equivalents | | (2,652) | 41,281 |
| Cash and cash equivalents at the beginning of the financial year | | 55,090 | 26,789 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | 22 | (805) |
| **Cash and Cash Equivalents at the end of the Half Year** | | **52,460** | **67,265** |

The accompanying notes form part of these half year financial statements.

## Notes to the condensed consolidated financial statements

### 1. Significant accounting policies

**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 financial instruments. 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 Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the half year financial 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 2011 annual financial report for the financial year ended 30 June 2011, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

**New or revised Standards and Interpretations that are first effective in the current reporting period**

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 reporting period.

There are no new and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group.

## Notes to the condensed consolidated financial statements

### 2. Dividends

During the period, Mermaid Marine Australia Limited made the following dividend payments:

| | Half year ended 31 December 2011 | | Half year ended 31 December 2010 | |
|---|---|---|---|---|
| | Cents per share | Total $'000 | Cents per share | Total $'000 |
| **Fully paid ordinary shares** | | | | |
| Final Dividend (fully franked at a 30% tax rate) | 5 | 10,774 | 5 | 9,364 |

On 15 February 2012, the Directors declared a fully franked interim dividend in respect to the year ending 30 June 2012 of 5 cents per share to the holders of fully paid ordinary shares. The dividend will be paid to all shareholders recorded on the register of members as at 2 March 2012. This dividend will be paid on 23 March 2012. This dividend has not been included as a liability in these financial statements.

### 3. Profit from Operations

| | Half year ended 31 Dec 2011 $'000 | Half year ended 31 Dec 2010 $'000 |
|---|---|---|
| **a) Revenue from continuing operations consisted of the following items:** | | |
| Rendering of services | 177,515 | 122,025 |
| Rental revenue | 15,570 | 12,470 |
| | 193,085 | 134,495 |
| | | |
| **b) Other gains and (losses)** | | |
| Net foreign exchange gain | 191 | 606 |
| Loss on disposal of : | | |
| Property, plant and equipment | (124) | (296) |
| | | |
| **c) Finance costs** | | |
| Interest expense – other entities | 3,280 | 4,375 |
| Finance charges – lease finance charges | 1,155 | 1,546 |
| | 4,435 | 5,921 |

## Notes to the condensed consolidated financial statements

### 3. Profit from Operations (continued)

| | Half year ended 31 Dec 2011 $'000 | Half year ended 31 Dec 2010 $'000 |
|---|---|---|
| **d) Profit for the period** | | |
| **Profit for the period before income tax has been arrived at after charging the following:** | | |
| **i) Depreciation** | | |
| Depreciation of Non-Current assets: | | |
| Leasehold buildings and improvements | 1,793 | 1,670 |
| Vessels | 9,611 | 5,059 |
| Vessels – hire purchase | 1,520 | 1,523 |
| Plant and equipment | 868 | 498 |
| Plant and equipment – hire purchase | 347 | 344 |
| | 14,139 | 9,094 |
| **ii) Impairment losses** | | |
| Impairment losses recognised on trade receivables | 27 | 124 |
| Reversal of impairment losses recognised on trade receivables | (74) | - |
| **iii) Employee benefits** | | |
| Post employment benefits: | | |
| Defined contribution plans | 2,944 | 1,902 |
| Share based payments: | | |
| Equity settled share-based payments | 912 | 1,375 |
| Other employee benefits | 72,733 | 51,766 |
| | 76,589 | 55,043 |

## Notes to the condensed consolidated financial statements

### 4. Earnings per Share

| | Half year ended 31 Dec 2011 Cents per Share | Half year ended 31 Dec 2010 Cents per Share |
|---|---|---|
| Basic earnings per share | 12.75 | 10.46 |
| Diluted earnings per share | 12.49 | 10.27 |

**Basic Earnings per Share:**

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

| | Half year ended 31 Dec 2011 $'000 | Half year ended 31 Dec 2010 $'000 |
|---|---|---|
| Net Profit | 27,631 | 20,393 |
| | **No.'000** | **No.'000** |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 216,756 | 194,874 |

**Diluted Earnings per Share:**

The earnings and weighted average number of ordinary and potential ordinary shares used in the calculation of diluted earnings per share are as follows:

| | $'000 | $'000 |
|---|---|---|
| Net Profit | 27,631 | 20,393 |
| | **No.'000** | **No.'000** |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | 216,756 | 194,874 |
| Shares deemed to be issued for no consideration in respect of: | | |
| Employee options/performance rights | 4,418 | 3,671 |
| Weighted average number of ordinary shares used in the calculation of diluted earnings per share | 221,174 | 198,545 |

## Notes to the condensed consolidated financial statements

### 5. Income Tax

| | Half year ended 31 Dec 2011 $'000 | Half year ended 31 Dec 2010 $'000 |
|---|---|---|
| **Income tax recognised in profit or loss** | | |
| Tax expense comprises: | | |
| Current tax expense in respect of the current year | 8,335 | 7,726 |
| Deferred tax expense relating to origination and reversal of temporary differences | 1,940 | (715) |
| Adjustment recognised in the current year in relation to the current tax of prior years | (299) | (389) |
| Total tax expense | 9,976 | 6,622 |
| The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows: | | |
| Profit from operations | 37,607 | 27,015 |
| Income tax expense calculated at 30% | 11,282 | 8,105 |
| Effect of revenue that is exempt from taxation | (220) | (1,517) |
| Effect of expenses that are not deductible in determining taxable profit | 181 | 423 |
| Effect of tax deductible items not included in accounting profit | (663) | - |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (305) | - |
| | 10,275 | 7,011 |
| Adjustment recognised in the current year in relation to the current tax of prior years | (299) | (389) |
| | 9,976 | 6,622 |

During the financial year the Group was subject to taxes in Australia, Singapore and Brunei. The tax rate used in the above reconciliation for operations in Australia on taxable profits under Australian tax law is the corporate tax rate of 30%. The tax rate payable under Singaporean tax law is 17% and Bruneian tax law is 22%.

## Notes to the condensed consolidated financial statements

### 6. Trade and Other Receivables

| | 31 Dec 2011 $'000 | 30 June 2011 $'000 |
|---|---|---|
| Trade receivables | 70,748 | 61,943 |
| Allowance for doubtful debts | (125) | (171) |
| Other receivables | 1,766 | 1,507 |
| Goods and services tax recoverable | 1,312 | 1,117 |
| | 73,701 | 64,396 |

### 7. Other Current Assets

| | 31 Dec 2011 $'000 | 30 June 2011 $'000 |
|---|---|---|
| Prepayments | 9,272 | 5,278 |

### 8. Investments Accounted For Using the Equity Method

| Name of Entity | Principal Activity | Country of Incorporation | Ownership Interest | | Consolidated Carrying Amount | |
|---|---|---|---|---|---|---|
| | | | 2011 % | 2010 % | 31 Dec 2011 $'000 | 30 June 2011 $'000 |
| **Associates** | | | | | | |
| Toll Mermaid Logistics Broome Pty Ltd (i) | Supply base services in Broome for the offshore oil and gas industry | Australia | 50 | 50 | 4,681 | 4,659 |
| | | | | | 4,681 | 4,659 |

(i) The reporting date of Toll Mermaid Logistics Broome Pty Ltd (TMLB) is 30 June. The consolidated entity acquired a 50% ownership interest in TMLB in October 2006. Pursuant to a shareholder agreement the consolidated entity has the right to cast 50% of the votes at TMLB meetings.

## Notes to the condensed consolidated financial statements

### 9. Property, Plant & Equipment

| | Leasehold Buildings and Improvements at cost | Vessels at cost | Vessels – Hire Purchase at cost | Plant and Equipment at cost | Plant and Equipment – Hire Purchase at cost | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Gross carrying amount:** | | | | | | |
| Balance at 1 July 2011 | 107,450 | 203,857 | 62,261 | 15,431 | 9,010 | 398,009 |
| Additions | 4,019 | 20,188 | - | 1,184 | 104 | 25,495 |
| Acquisitions through business combinations | 4,016 | - | - | 349 | - | 4,365 |
| Disposals | - | (130) | - | (2) | (83) | (215) |
| Transfers | - | 19,970 | (19,967) | (3) | - | - |
| Net currency exchange differences | - | 7,603 | - | 4 | - | 7,607 |
| **Balance at 31 December 2011** | **115,485** | **251,488** | **42,294** | **16,963** | **9,031** | **435,261** |
| **Accumulated depreciation:** | | | | | | |
| Balance at 1 July 2011 | (13,899) | (31,618) | (12,291) | (3,983) | (1,534) | (63,325) |
| Disposals | - | - | - | 1 | 35 | 36 |
| Transfers | - | (5,886) | 5,885 | 1 | - | - |
| Depreciation expense | (1,793) | (9,611) | (1,520) | (868) | (347) | (14,139) |
| Depreciation capitalised in Assets | - | - | - | - | 2 | 2 |
| Net currency exchange differences | - | (498) | - | (2) | - | (500) |
| **Balance at 31 December 2011** | **(15,692)** | **(47,613)** | **(7,926)** | **(4,851)** | **(1,844)** | **(77,926)** |
| **Net book value:** | | | | | | |
| As at 30 June 2011 | 93,551 | 172,239 | 49,970 | 11,448 | 7,476 | 334,684 |
| As at 31 December 2011 | 99,793 | 203,875 | 34,368 | 12,112 | 7,187 | 357,335 |

## Notes to the condensed consolidated financial statements

### 10. Trade and Other Payables

| | 31 Dec 2011 $'000 | 30 June 2011 $'000 |
|---|---|---|
| Trade payables | 7,630 | 6,071 |
| Other payables and accruals | 19,127 | 15,368 |
| GST payable | 2,967 | 1,836 |
| | 29,724 | 23,275 |

### 11. Borrowings

| | | |
|---|---|---|
| **Secured – at amortised cost** | | |
| **Current** | | |
| Hire purchase liability | 14,965 | 12,014 |
| Bank loan | 8,917 | 18,246 |
| | 23,882 | 30,260 |
| **Non-Current** | | |
| Hire purchase liability | 13,311 | 18,313 |
| Bank loan | 118,100 | 85,772 |
| | 131,411 | 104,085 |

### 12. Provisions

| | | |
|---|---|---|
| **Current** | | |
| Employee benefits – Annual Leave | 4,960 | 4,216 |
| **Non-Current** | | |
| Employee benefits – Long Service Leave | 1,115 | 942 |

### 13. Issued Capital

| | | |
|---|---|---|
| 217,833,136 fully paid ordinary shares (30 June 2011: 215,376,756) | 192,728 | 186,416 |

**Issue of equity securities**

During the period, the Company issued 916,556 ordinary shares (2010: 826,071) for consideration of $1,677,297 (2010: $613,960) following the exercise of options issued under the Company's executive and employee share option plans. The Company also issued 1,539,824 ordinary shares (2010: 1,387,562) through the dividend reinvestment plan in relation to the final dividend for the year ended 30 June 2011.

During the period, the Company also issued 1,504,655 performance rights (2010: 1,046,433) over ordinary shares to various employees under its executive and employee share option and rights plans. These rights had an average value at grant date of $1.94 per right (2010: $1.62).

## Notes to the condensed consolidated financial statements

### 14. Reserves

| | 31 Dec 2011 $'000 | 30 June 2011 $'000 |
|---|---|---|
| Employee equity-settled benefits | 4,573 | 2,165 |
| Cash flow hedging | (1,491) | (1,612) |
| Foreign currency translation | (20,396) | (27,712) |
| | (17,314) | (27,159) |

### 15. Retained Earnings

| | | |
|---|---|---|
| Balance at beginning of financial year | 110,469 | 85,234 |
| Net profit attributable to members of the parent entity | 27,631 | 43,150 |
| Dividend provided for or paid | (10,774) | (17,915) |
| Balance at end of financial period | 127,326 | 110,469 |

### 16. Segment Information

Information reported to the Board for the purposes of resource allocation and assessment of performance is based on the category of services provided. The Group's reportable segments under AASB 8 are therefore as follows:

- Vessel Operations
- Supply Base
- Slipway

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review:

## Notes to the condensed consolidated financial statements

| 16. Segment Information (continued) | Revenue from external customers | | Inter-segment revenue | | Total segment revenue | |
|---|---|---|---|---|---|---|
| | Half year ended 31 Dec 2011 $'000 | Half year ended 31 Dec 2010 $'000 | Half year ended 31 Dec 2011 $'000 | Half year ended 31 Dec 2010 $'000 | Half year ended 31 Dec 2011 $'000 | Half year ended 31 Dec 2010 $'000 |
| **Segment Revenues** | | | | | | |
| Vessels | 155,764 | 100,275 | 1 | 85 | 155,765 | 100,360 |
| Supply Base | 31,796 | 26,126 | 1,550 | 1,600 | 33,346 | 27,726 |
| Slipway | 5,348 | 8,073 | 4,139 | 3,437 | 9,487 | 11,510 |
| Total | 192,908 | 134,474 | 5,690 | 5,122 | 198,598 | 139,596 |
| Eliminations | | | | | (5,690) | (5,122) |
| Unallocated | | | | | 177 | 21 |
| **Total consolidated revenue** | | | | | 193,085 | 134,495 |

Inter-segment services are provided for amounts equal to competitive market prices charged to external customers for similar services.

| | Half year ended 31 Dec 2011 $'000 | Half year ended 31 Dec 2010 $'000 |
|---|---|---|
| **Segment Profit** | | |
| Vessels | 33,592 | 22,140 |
| Supply Base | 13,131 | 14,183 |
| Slipway | 448 | 1,244 |
| Eliminations | 374 | (112) |
| Total for continuing operations | 47,545 | 37,455 |
| Investment revenue | 913 | 757 |
| Other losses | (124) | (296) |
| Unallocated foreign currency gain | 191 | 22 |
| Central administration costs | (6,505) | (4,993) |
| Share of profit of associates | 22 | (9) |
| Unallocated finance costs | (4,435) | (5,921) |
| **Profit before tax** | 37,607 | 27,015 |

Segment profit represents the profit earned by each segment without allocation of investment revenue, other gains and losses, unallocated foreign currency gains and losses, central administration costs, share of profits of associates, 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.

The comparatives have been adjusted to reflect finance costs and investment revenue no longer being allocated to the operating segments from this reporting period. This is the revised measure reported to the chief operating decision maker from 1 July 2011. The change in method is a result of drawing down the new group debt facility and reflects this being an overall group facility in contrast to the previous asset specific debt facilities.

## Notes to the condensed consolidated financial statements

### 16. Segment Information (continued)

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

| | 31 Dec 2011 $'000 | 30 June 2011 $'000 |
|---|---|---|
| Vessels | 305,918 | 277,247 |
| Supply Base | 140,479 | 111,199 |
| Slipway | 11,353 | 13,890 |
| Unallocated | 62,239 | 64,674 |
| | 519,989 | 467,010 |

The following is an analysis of depreciation and amortisation by reportable operating segment:

| | 31 Dec 2011 $'000 | 31 Dec 2010 $'000 |
|---|---|---|
| Vessels | 11,203 | 6,650 |
| Supply Base | 2,275 | 2,093 |
| Slipway | 303 | 286 |
| Unallocated | 358 | 65 |
| | 14,139 | 9,094 |

### 17 Business Combination

On 22 November 2011, Mermaid Marine Australia Ltd entered into an agreement with Bis Industries Ltd to acquire their supply base in Dampier.

The Bis supply base is located in the King Bay Industrial estate, adjacent to MMA's existing Dampier Supply Base facility. The Bis supply base covers an area of 11.7 hectares and comprises open laydown, undercover storage and office space.

The transaction settled on 16 December 2011.

Details of the consideration transferred, fair value of the assets and liabilities acquired and cash flow on acquisition are as follows:

#### a) Consideration transferred

| | $'000 |
|---|---|
| Cash | 24,000 |

Acquisition related costs totalling $1,351,838 have been excluded from the consideration transferred and recognised as an expense within the "Administration expenses" line in the Statement of Comprehensive Income.

## Notes to the condensed consolidated financial statements

### 17. Business Combination (continued)

### b) Fair value of assets acquired and liabilities assumed at the date of acquisition

| | $'000 |
|---|---|
| **Current assets** | |
| Indemnification asset | 50 |
| | |
| **Non-current assets** | |
| Plant & equipment | 4,365 |
| | |
| **Current liabilities** | |
| Trade & other payables | (133) |
| | |
| **Current liabilities** | |
| Deferred tax liabilities | (386) |
| | 3,896 |

The initial accounting for the acquisition has only been provisionally determined at the end of the interim reporting period. At the date of this report, the calculations to determine the fair value of plant and equipment, associated deferred tax liabilities and goodwill is still to be finalised. Therefore the values have been provisionally determined based on best estimates of likely fair value.

### c) Goodwill arising on acquisition

| | $'000 |
|---|---|
| Consideration transferred | 24,000 |
| Less: fair value of identifiable net assets acquired | (3,896) |
| Goodwill arising on acquisition | 20,104 |

Goodwill arose on the acquisition because it provides access to substantial extra land adjacent to MMA's existing supply base. The capacity provided by the additional land, together with the expected synergies with existing operations, is where the value is expected to be realised.

None of the goodwill arising on acquisition is expected to be deductible for tax purposes.

### d) Net cash outflow on acquisition

| | $'000 |
|---|---|
| Payment from cash reserves | 12,000 |
| Drawdown new debt (paid by bank direct to vendor) | 12,000 |
| Direct costs relating to the acquisition | 1,352 |
| | 25,352 |

### e) Impact of acquisition on the results of the group

The acquired supply base contributed revenue of $121,766 and net profit after tax of $65,789 to the Group for the period 16 December 2011 to 31 December 2011.