Annual Report 2013

PEOPLE. CUSTOMERS. TEAM.

MERMAID MARINE
AUSTRALIA LTD

Corporate Directory

Directors

Tony Howarth
Chairman

Jeffrey Weber
Managing Director

Mark Bradley
Non-Executive Director

Andrew Edwards
Non-Executive Director

Eve Howell
Non-Executive Director

Chiang Gnee Heng
Non-Executive Director

Company Secretary

Dylan Roberts

Registered Office

Endeavour Shed, 1 Mews Road
FREMANTLE WA 6160

Tel: +61 8 9431 7431
Fax: +61 8 9431 7432
www.mma.com.au

Auditors

Deloitte Touche Tohmatsu
Chartered Accountants
Level 14, Woodside Plaza
240 St Georges Terrace
PERTH WA 6000

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001

Solicitors

Ashurst
Level 32, Exchange Plaza
2 The Esplanade
PERTH WA 6000

Tel: +61 8 9366 8000
Fax: +61 8 9366 8111

Bankers

National Australia Bank Limited
100 St Georges Terrace
PERTH WA 6000

Tel: 1300 889 398
Fax: 1300 782 206

Spanning 28 hectares, MMA's Dampier Supply Base has a six berth wharf facility, open sealed laydown areas, undercover storage and offices capable of servicing the array of vessels engaged in offshore support activities.

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Vision

As an industry leader, we will be an employer of choice for our people, a service provider of choice for our customers and a company of choice for our shareholders.

MISSION

WE WILL BE A HIGHLY EFFECTIVE AND RESPONSIVE MARINE LOGISTICS COMPANY. TO DRIVE OUR SUCCESS WE WILL:

- Prevent injuries by eliminating incidents.
- Build and maintain a portfolio of quality assets and infrastructure.
- Continuously improve the management systems that govern our core business processes.
- Provide a respectful and supportive workplace that embraces diversity.
- Think and operate sustainably with a goal of minimal environmental impact.
- Contribute to the economic and social wellbeing of the communities in which we work.

Values

MMA's Vision is supported by our three key values; People, Customer Relationships and Team Work.

PEOPLE

We will provide a workplace built on trust, cooperation and mutual respect where our people care about their safety and the safety of those around them.

CUSTOMER RELATIONSHIPS

We will understand our customers' requirements by building long-term collaborative relationships. We will provide safe and proactive solutions that deliver beyond expectations.

TEAM WORK

We will share knowledge, resources and services across our business. We will work together as one team to achieve our common goals.

About Us

Mermaid Marine Australia Limited ("MMA") is Australia's largest marine services provider to the offshore oil and gas industry.

As an industry leader, our Vision is to be an employer of choice for our people, a service provider of choice for our customers and a company of choice for our shareholders. We will achieve this Vision by operating in accordance with our three core values:

- By putting our people first.
- By building long-term, collaborative customer relationships.
- By working together as a team.

MMA has grown substantially since listing on the Australian Securities Exchange in 1999. With supply bases in Dampier and Broome and a range of modern offshore vessels, MMA offers its clients marine logistics services throughout all phases of the offshore oil and gas development cycle.

MMA's head office is in Fremantle, Western Australia, with key operations bases in Dampier and Broome and an international office in Singapore.

Over the past six years, MMA has invested over $470 million in a vessel and supply base development program ensuring it can meet the emerging requirements of Australia's offshore oil and gas industry.

As a member of the S&P/ASX200 Index, MMA aims to address its clients' current and emerging requirements safely, reliably and with a willingness to explore new possibilities.

VESSEL OPERATIONS

MMA currently owns and operates 41 vessels throughout Australia and internationally.

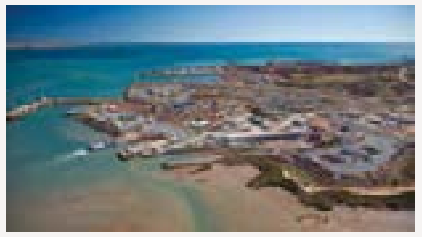
MMA operates a diversified fleet of vessels that includes:

- Anchor handling tugs;
- AHTS vessels;
- Platform supply vessels;
- Multi-purpose survey vessels;
- Harbour tugs;
- Barges; and
- Accommodation vessels.

MMA has custom built a number of vessels for specialist marine services and is experienced in the provision of marine support across the exploration, construction and production sectors of the oil and gas development cycle.

MMA's international operating entity, Mermaid Marine Asia Pte Ltd (MMAS), is responsible for managing the international vessel fleet. MMAS operates under its own document of compliance and works closely with the MMA Projects and Operations teams to conduct project mobilisations, vessel acquisitions and to source vessels for short term charter to complement the Group's fleet of owned vessels.

Having the flexibility to register vessels under a foreign flag means that MMA can offer its clients a range of international and Australian based solutions.



SUPPLY BASES

MMA operates strategically located supply bases in Dampier and Broome.

Spanning 28 hectares, MMA's Dampier Supply Base has a six berth wharf facility, open sealed laydown areas, undercover storage and offices capable of servicing the array of vessels engaged in offshore support activities. MMA is in the unique position of being able to offer its clients in the North West Shelf the full range of marine logistics services from vessel support and supply base services, to ship repair and maintenance facilities. The most recent development at MMA's Dampier Supply Base is the Mermaid Logistics Base, which encompasses 11 hectares and employs 25 people.

MMA's Broome Supply Base encompasses over 11 hectares of land and is strategically located to service exploration, construction and production activities in the Browse Basin. The Broome Supply Base operations, conducted through an incorporated joint venture between MMA and Toll Holdings Ltd, offers clients open laydown and undercover storage, recently built offices, casing storage and wash-down facilities.

SLIPWAY

MMA's Dampier Slipway is strategically located at the Dampier Supply Base and is capable of docking vessels up to 3,200 tonne displacement.

The Slipway is a key MMA asset. The Slipway team provide timely maintenance and repair services to MMA's expanding fleet in the North West which ensures that MMA is capable of servicing its clients' marine requirements safely and with a degree of flexibility that no other operator in the region can provide.

MMA's Slipway is the only ship repair facility in direct proximity to the North West Shelf, with the alternatives requiring significant travel time.

In addition to servicing MMA's own fleet, the Slipway provides services to third party operators including routine and emergency dockings, mobilisations and a wide range of marine repairs and maintenance services.

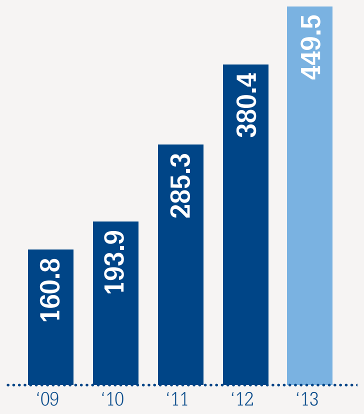
The Slipway commenced operations in 2001 and has docked over 600 vessels in that time.

Financial Highlights

REVENUE	$449.5m ^18.2%	OPERATING CASHFLOW	$70.8m ˅11.1%
PROFIT BEFORE TAX	$ 83.8m ^17.0%	RETURN ON EQUITY	16.6% ˅0.7%
NET PROFIT AFTER TAX	$ 60.3m ^18.2%	CASH AT BANK	$58.8m ^6.3%
EARNINGS PER SHARE	26.9c ^15.0%	GEARING	30.0% ˅2.0%
FULL YEAR DIVIDEND	12.5cps ^13.6%	CAPITAL EXPENDITURE	$95.6m ^13.7%

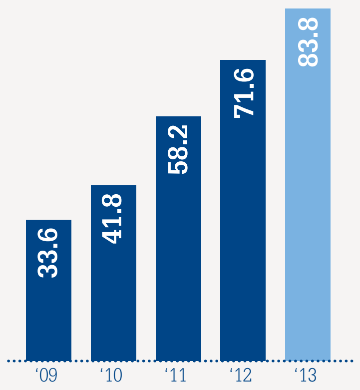
REVENUE ($m)

$449.5m ^18.2% CAGR* 29%



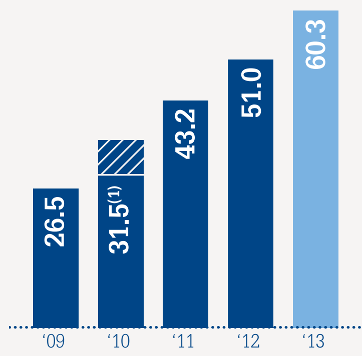
PROFIT BEFORE TAX ($m)

$83.8m ^17.0% CAGR 26%



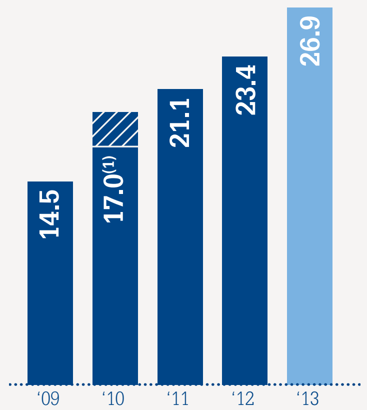
NET PROFIT AFTER TAX ($m)

$60.3m ^18.2% CAGR 23%



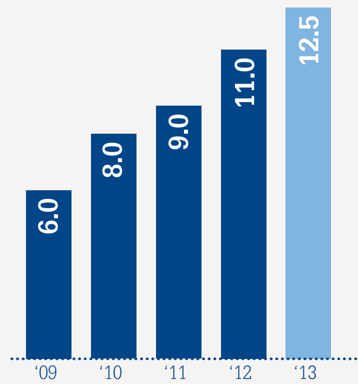
EARNING PER SHARE (cents)

26.9c ^15.0% CAGR 17%



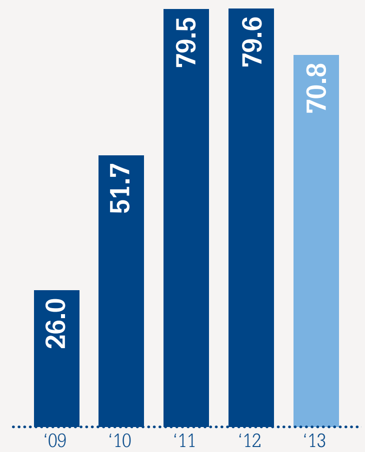
DIVIDENDS PER SHARE (cents)

12.5cps ^13.6%



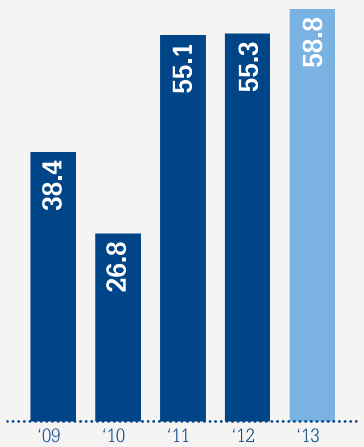
OPERATING CASHFLOW ($m)

$70.8m ˅11.1%



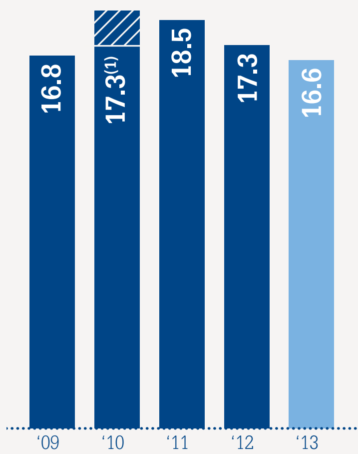
CASH AT BANK ($m)

$58.8m ^6.3%



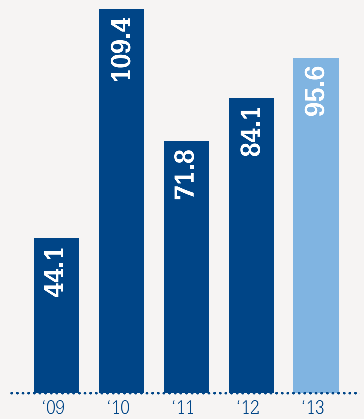
RETURN ON EQUITY (%)

16.6% ˅0.7%



CAPITAL EXPENDITURE ($m)

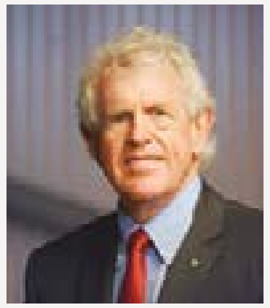
$95.6m ^13.7%



(1) Normalised to exclude the one-off tax benefit from the Federal Government Capital Investment Allowance – the shaded area indicates the actual reported results. *CAGR – compound annual growth rate.

MERMAID MARINE AUSTRALIA LIMITED ANNUAL REPORT 2013

Chairman's Address



It gives me great pleasure to present the Annual Report for Mermaid Marine Australia Limited ("MMA") for the year ended 30 June 2013.

EARNINGS PER SHARE

26.9cps

FULL YEAR DIVIDEND

12.5cps

Your Company continued to maintain its track record of strong earnings growth in 2013 with Net Profit after Tax ("NPAT") for the year increasing by 18.2% to $60.3 million and Earnings per Share ("EPS") increasing by 15.0% to 26.9 cents per share.

MMA has once again increased its dividend payment to shareholders, declaring a final fully franked dividend of 7 cents per share, bringing the total dividends for the year to 12.5 cents per share, an increase of 13.6% on last year.

Activity in the Australian oil and gas sector remains strong with four major LNG projects currently under construction in the North West of Western Australia with a combined capital cost of $125 billion. Exploration activity is also buoyant with nine oil and gas companies currently undertaking drilling programs in the region and significant gas discoveries announced by Santos and Chevron during the year.

Cost pressures are, however, having an impact on the industry and threaten future investment in LNG projects in Australia. Earlier in the year, Chevron announced a 21% increase in the Australian dollar capital cost of its Gorgon Project, citing rising labour costs and poor productivity as major factors. Woodside also abandoned its plans for an on-shore processing facility at James Price Point for its Browse LNG Project and is now looking at floating LNG as a more commercial alternative for development of its gas reserves.

Floating LNG ("FLNG") technology is becoming an important industry trend with Shell already in the process of constructing the world's first FLNG vessel in Korea. During the year BHP Billiton and Exxon Mobil also announced plans to jointly develop the $10 billion Scarborough gas project using FLNG technology. FLNG has the benefit of lower costs as it removes the requirement for the construction of on-shore processing facilities and long pipelines. It also may provide the opportunity to commercially develop gas fields previously considered to be stranded.

The issue of rising costs is pertinent this year as MMA, along with other Australian oil and gas vessel operators, are currently in the process of negotiating new Enterprise Bargaining Agreements for the industry. One can only hope that the relevant unions will consider the overall economic environment and global competitiveness of the Australian oil and gas industry when negotiating wage increases and employment conditions for their members this year.

MMA continued to invest in its infrastructure during the year with ongoing improvements to our Supply Bases in Dampier and Broome. The Broome Supply Base experienced strong growth as activity in the Browse Basin increased. Several drilling campaigns are currently underway in the region as well as construction commencing on Shell's Prelude Project and INPEX's Ichthys Project. MMA has signed long-term five year Supply Base contracts with both of these major projects, validating our decision to invest in our Broome Supply Base facilities in advance of major developments in the region.

MMA Board of Directors

Left to right: Andrew Edwards, Eve Howell, Mark Bradley, Tony Howarth, Jeff Weber, Chiang Gnee Heng and James Carver.

The Mermaid Cove, a technically sophisticated 53m DP2 OSV was built for MMA in Singapore and delivered in January 2013. Upon delivery, the Cove commenced a long term production support contract with BHP Billiton.

MMA also continued to invest in its vessel fleet adding two new vessels during the year, a technically sophisticated 53m DP2 Offshore Support Vessel ("OSV"), the Mermaid Cove, and an 87m Platform Supply Vessel ("PSV"), the Mermaid Inscription. Both vessels commenced contracts immediately upon delivery. Our fourth PSV, the Mermaid Leeuwin is currently under construction in Singapore and is due for delivery in November 2013.

Our PSV strategy has been successful to date, with our vessels supporting a range of offshore projects in the region. Importantly, MMA was successful in winning its first drilling support contract during the year supporting the Ensco 109 jack up rig for Santos. This is an important milestone for the Company; further diversifying MMA's spread of vessel work across the exploration, construction and production support sectors of the market.

MMA was also successful in winning two new major long-term production support contracts during the year, a five year, $50 million contract with BHP Billiton and a two year, $15 million contract with Santos; both supporting FPSO operations in the North West Shelf. As construction activity tapers off in Australia over the medium-term, securing further ongoing production support work is a major focus for the Company.

MMA is also focused on expanding its presence internationally. Over the past year MMA has successfully expanded its client base in South East Asia with vessels now operating across Malaysia, Thailand and Myanmar. We currently have 11 Singapore flagged vessels in our fleet and will continue to focus on expanding our presence in the region to further diversify our market opportunities.

Over the past five years we have seen significant improvements in safety across the organisation as we continually improve our safety systems. Earlier in the financial year we rolled out our "Target 365" safety strategy, one of the most important initiatives ever undertaken by the Company. The strategy is based on the premise of every employee coming to work each day with the aim of having a "Perfect Day" free of incidents and injuries. Unfortunately, for the first time in five years, our total recordable case frequency increased. Whilst this was a disappointing result, MMA remains committed to achieving zero injuries and incidents across the organisation and we are confident that our new strategy will deliver improved results.

Once again I would like to thank Mr Jeff Weber, Managing Director and all management and staff of MMA for their hard work and dedication to the business during the year. I would also like to thank the Board of Directors for their valuable contribution during what was another successful year for the Company.

Finally, I would like to pay tribute to Captain Jim Carver, who recently retired from the Board of Directors. Jim was the original founder of the Company back in 1982 and has played an invaluable role in its growth and success over the past 30 years. I would like to wish Jim all the best on his retirement as a Director and sincerely thank him for his contribution to the Company and for the important legacy he has left us.

We look forward to 2014 and to continuing to deliver strong returns for our shareholders.

Tony Howarth AO
Chairman

Managing Director's Review of Operations

MMA continued to deliver strong earnings growth in 2013.

REVENUE

$449.5m

NET PROFIT AFTER TAX

$60.3m

Revenue was up 18.2% to $449.5 million and Net Profit after Tax ("NPAT") for the year increased by 18.2% to $60.3 million. Earnings per Share ("EPS") increased by 15.0% to 26.9 cents per share.

MMA once again increased its dividend to shareholders declaring a final dividend of 7 cents per share, taking the full year dividend to 12.5 cents per share, an increase of 13.6% on the previous financial year. Shareholders who wish to reinvest their dividend can take advantage of our Dividend Reinvest Plan which provides for reinvestment at a 2.5% discount.

MMA's Balance Sheet remains strong with a relatively low debt to equity ratio of 30% and Cash at Bank of $58.8 million, providing a strong platform to fund future growth.

OPERATING HIGHLIGHTS

The 2013 financial year result once again emphasised the benefit of MMA's diversified service offering. For the first time in the Company's history the Dampier Supply Base generated a higher Earnings before Interest and Tax ("EBIT") contribution than our vessel business. The Slipway and Broome Supply Base also made significant contributions to earnings.

VESSEL OPERATIONS

Revenue from vessel operations was up 3.0% to $283.7 million, whilst EBIT reduced to $44.5 million, down 15.2% on the previous year.

The vessel business was impacted by lower utilisation in the third quarter as a number of vessels came off contract and took some time to redeploy in a temporarily soft market. This was compounded by cyclones during the period which resulted in higher crew and fuel costs for these vessels while they were off hire. Utilisation levels picked up again in the fourth quarter as our vessels moved onto new contracts.

The average utilisation for the fleet across the year was 76.2%.

MMA's vessel fleet continued to support oil and gas activities in Australia across the exploration, construction and production sectors of the market.

MMA had a number of vessels engaged on various scopes supporting construction of the Gorgon Project on Barrow Island. During the year, MMA was also awarded a new tug and barge contract to transport cargo from Henderson to Barrow Island. The project involved the design and mobilisation of a new concept 400ft "Super Barge" fitted with a 400 tonne crane and sourcing a towing vessel capable of achieving average speeds of over 10 knots, the first of its kind to operate in Australia. Following the success of the initial concept, a second contract for a similar tug and barge set has been awarded and will begin operations in the second quarter of FY2014. The success of these projects is a good example of MMA's ongoing focus on delivering unique marine solutions to its clients.

MMA also supported the construction of the Gorgon Domestic Gas Pipeline Installation Project and BHP Billiton's Macedon Project during the year, as well as supporting Allseas in its pipelay operations.

The Mermaid Inscription, an 87m PSV, was purchased in January 2013 and configured to meet the latest requirements of the oil and gas offshore drilling and construction industries.

MMA has recently been awarded a significant vessel contract by Subsea 7 to provide tug and barge support for the Heavy Lift and Tie-in Scope of the Gorgon Project. MMA will provide a fleet of nine tug and barge sets for subsea installation works as well as an offshore support tug. MMA will act as lead contractor and will subcontract with other vessel operators to provide the overall vessel requirements. The contract value is in excess of A$100 million with operations commencing in October 2013 and completing in the 2014 calendar year.

MMA commenced its first major drilling support contract during the year with the PSV, the Mermaid Leveque, supporting the Ensco 109 jack up rig for Santos. This was an important milestone for the Company, further diversifying our service offering and validating our strategy of entering the PSV market.

MMA continues to provide services to a number of major oil and gas production facilities in Australia. MMA currently supports twelve of the thirteen FPSO facilities operating in the North West Shelf of Australia as well as operating in the spot market in the Bass Strait working for Origin, Nexus and Santos.

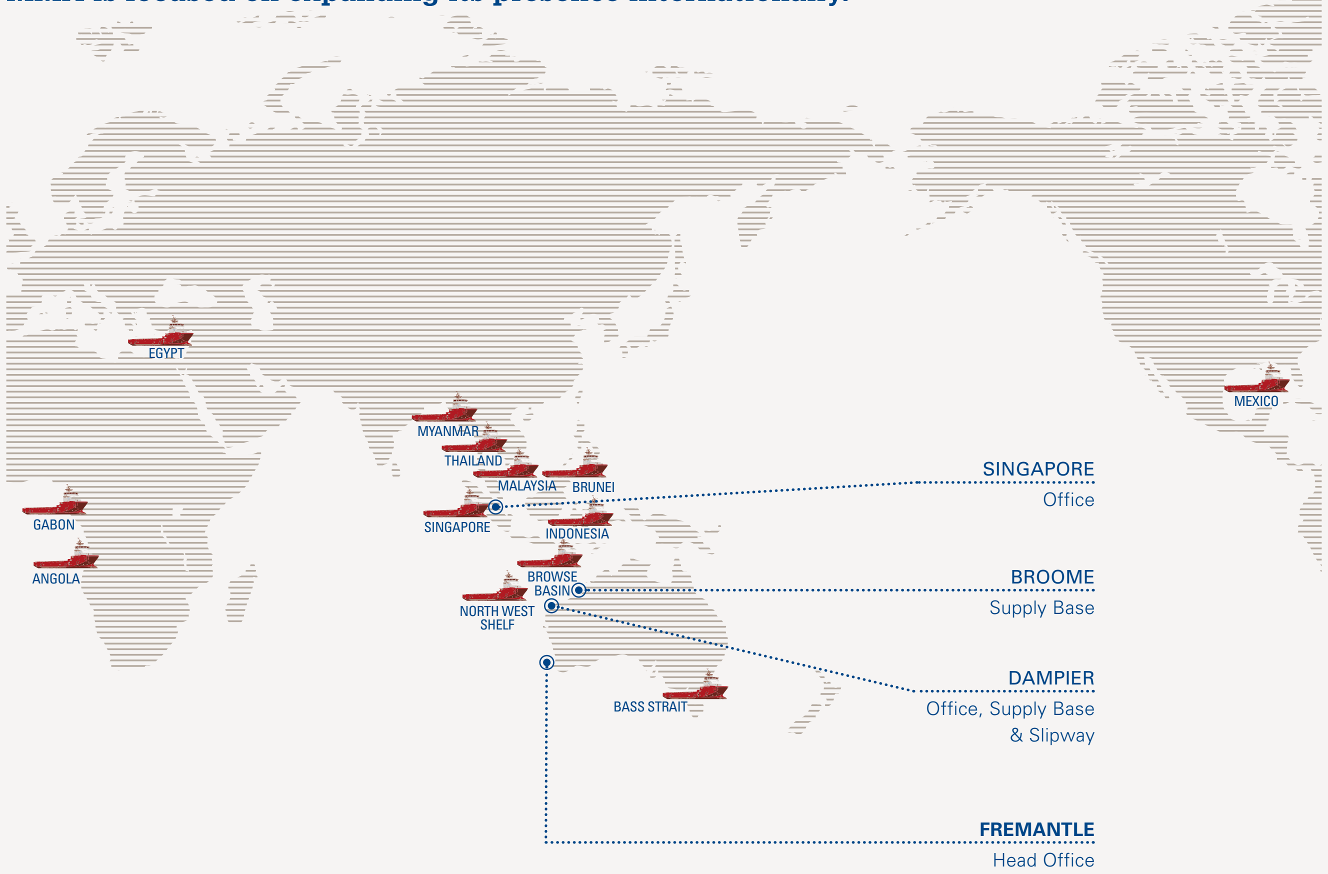
During the year, MMA was successful in winning two new major long-term production support contracts. MMA was awarded a five year, $50 million contract with BHP Billiton for the provision of offtake support services to the company's FPSOs, Stybarrow Venture and Pyrenees Venture, operating in the North West Shelf. MMA also secured a two year, $15 million contract with Santos for support to their FPSO, Modec Venture 11, in the Fletcher Finucane fields in the Carnarvon Basin.

MMA also secured a number of contract extensions, including a two year extension with Woodside for the Mermaid Searcher, with an option for a third year.

Long-term production support contracts are critical to balancing our portfolio with shorter term construction and spot market work, and are a particular focus for the Company over the medium-term.

To support this focus, MMA continued to invest in its fleet with the addition of two new vessels during the year. The Mermaid Cove, a technically sophisticated 53m DP2 OSV was built for MMA in Singapore and delivered in January 2013. The vessel is contracted to BHP Billiton Petroleum for a five year production support contract. The Cove has the ability to work in close quarters to tankers during offtake operations and is the first OSV operating off the North West Shelf to be fitted with a daughter craft and a 7m fast rescue craft, significantly increasing the vessel's capability as a search and rescue and emergency response vessel. The Cove is also equipped to undertake oil dispersant and recovery operations.

MMA is focused on expanding its presence internationally.



The Mermaid Inscription, an 87m PSV, was purchased in January 2013 and configured to meet the latest requirements of the oil and gas offshore drilling and construction industries. The Inscription went on hire immediately upon arriving in Australia on a pipelay support contract with Allseas.

In addition, MMA has its fourth PSV under construction in Singapore. The Mermaid Leeuwin, a technically sophisticated, 82m STX design, is due for delivery in November 2013.

The offshore construction outlook for the Australian vessel market remains positive with major vessel scopes currently being tendered for Chevron's Wheatstone Project, INPEX's Ichthys Project and Shell's Prelude Project.

International operations contributed approximately $13.9 million in revenue during the 2013 financial year, up marginally from $13.0 million the previous financial year.

The South East Asian vessel market was soft for most of the year but we have recently seen signs of tightening on the supply side, which we expect to translate to an improvement in day rates. MMA, having added some key personnel to its Singapore office, continues to broaden its client base in the region with vessels operating in Malaysia, Myanmar, Indonesia and Thailand during the year for a range of clients.

During the year, MMA secured a 20 month FPSO support contract with Salamander Energy in Thailand, an important milestone for the Company. MMA will continue to focus on expanding its presence in the South East Asian market where demand for oil and gas support services is expected to remain strong over the coming years.

Further afield, the Mermaid Vigilance continues on charter with Geokinetics in Mexico.

DAMPIER SUPPLY BASE

The Dampier Supply Base delivered strong growth in earnings during the year, driven by high demand for services across the Base and increased contributions from the Mermaid Logistics Base and Burrup Materials Facility.

Revenue was up 62.3% to $150.3 million and EBIT increased by 42.5% to $52.3 million for the year.

Drilling activity during the year was strong with Chevron, BHP Billiton, Santos, Exxon Mobil, Apache and Vermillion conducting drilling campaigns, resulting in high utilisation across the base and wharf.

MMA continued to upgrade its Supply Base facilities with upgrades made to the Mermaid Logistics Base and main Supply Base during the year.

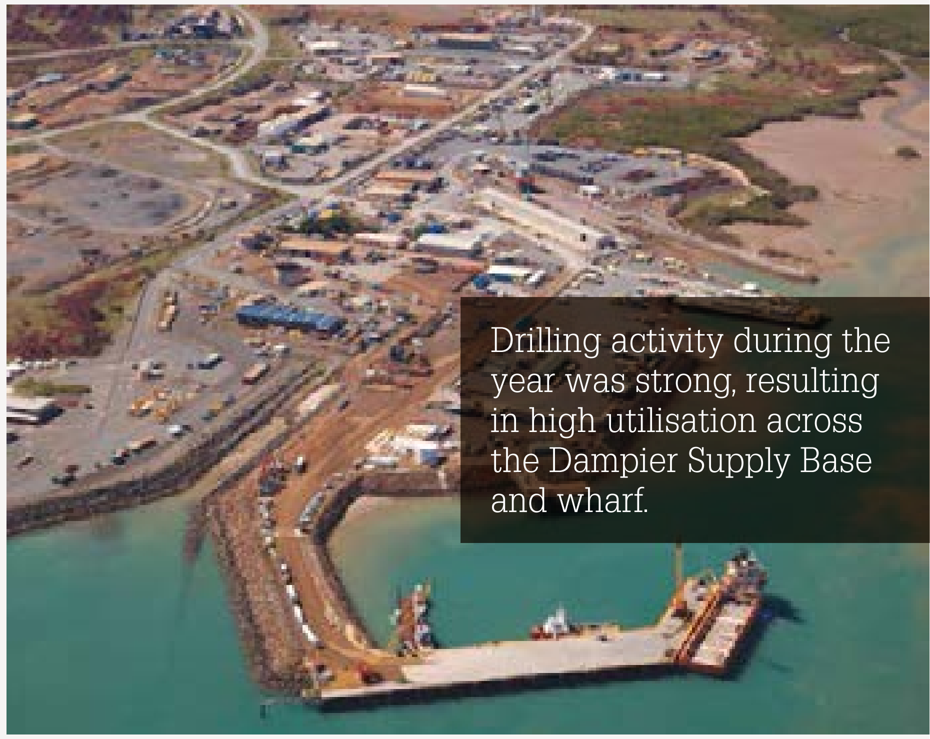
The Mermaid Logistics Base, having been under MMA ownership for 18 months now, is performing well with a number of key clients taking footprints within the facility.

MMA continues to service most major operators in the region with the new Logistics Base adding flexibility to MMA's overall service offering.

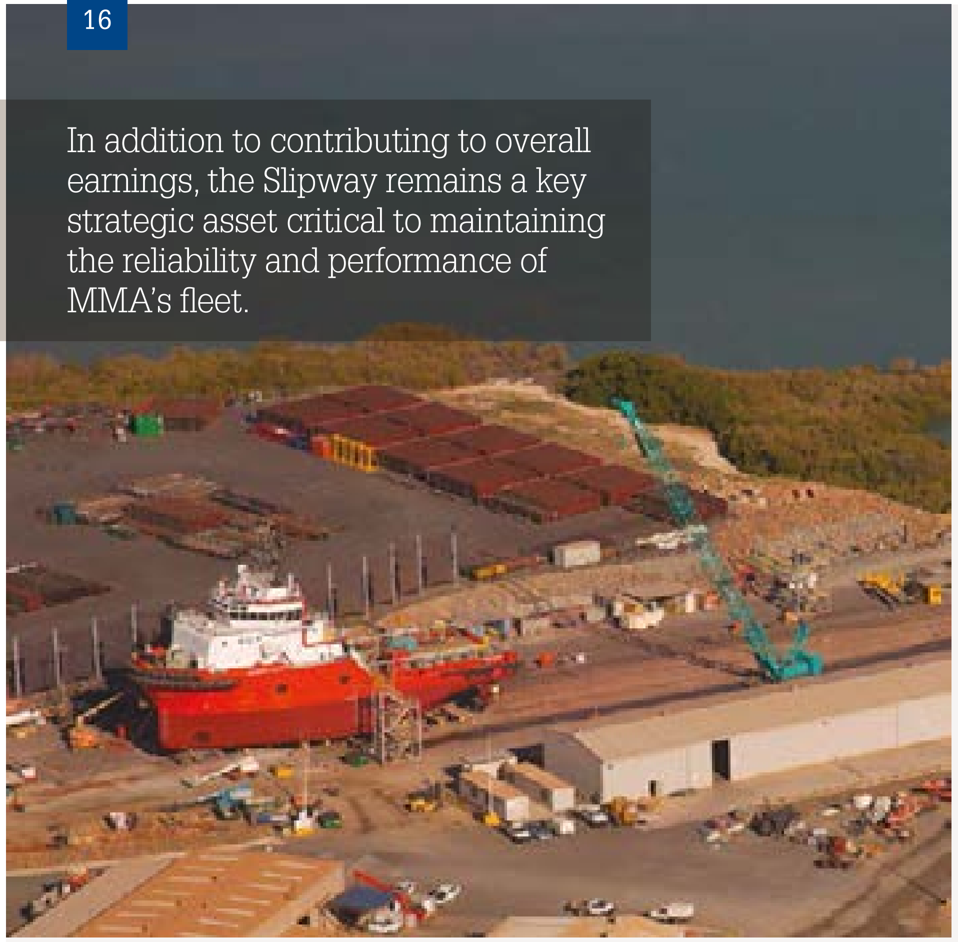
MMA is currently subleasing and operating the Woodside Burrup Materials Facility to support additional freight activities in relation to the Gorgon Project. It is expected that the current sub-lease arrangement will continue until 31 December 2013.

Productivity continues to be a major focus area on the Supply Base and a number of initiatives were implemented during the year, including the introduction of rosters to increase service coverage. This has been positively received by our clients. In addition, MMA bolstered its management and supervisory team with a number of key personnel appointments. Whilst adding to overhead, these appointments were critical to the ongoing safe and reliable operations of the Supply Base.

Looking forward, the Supply Base is expected to remain a strong contributor to earnings and cash flow. Whilst overall cargo volumes from the Gorgon Project are expected to reduce, general activity in the region is expected to continue. The Supply Base is well positioned to add additional service offerings to clients in the region, which will assist in driving ongoing demand for MMA's services.



Drilling activity during the year was strong, resulting in high utilisation across the Dampier Supply Base and wharf.



In addition to contributing to overall earnings, the Slipway remains a key strategic asset critical to maintaining the reliability and performance of MMA's fleet.

The outlook for the Broome Supply Base is very positive, with drilling and project activity throughout the region expected to drive strong demand for services.

DAMPIER SLIPWAY

The Slipway had an exceptional year, generating revenue of $24.9 million and EBIT of $3.5 million, up 66.7% on the previous year.

Utilisation and margins were boosted by a number of large and unique third party jobs completed during the first half. In addition, a focus on improved work planning and cost control had a positive impact on margins.

Demand for Slipway services from third parties was strong. Over the course of the year, a total of 59 vessels were docked, including 50 third party vessels.

MMA invested in improving its Slipway facilities during the year with the installation of a new cradle enabling larger vessels to be slipped and a new paint facility improving safety and environmental protection.

In addition to contributing to overall earnings, the Slipway remains a key strategic asset critical to maintaining the reliability and performance of MMA's fleet.

BROOME SUPPLY BASE (JOINT VENTURE BETWEEN MMA AND TOLL HOLDINGS LTD)

The Broome Supply Base delivered strong growth for the year with MMA's share of the Joint Venture's NPAT up significantly to $3.9 million.

Drilling activity in the region was buoyant with Conoco Phillips, Santos, Shell and Murphy Oil all conducting drilling campaigns during the year.

In addition, the Broome Supply Base completed a short term logistics contract for the Gorgon Project during the first half.

The Broome Supply Base continued to invest in infrastructure to meet the increasing activity in the region. During the year, new facilities were completed for Shell's Prelude Project and INPEX's Ichthys Project.

Long-term (five year) contracts have now been secured with both Shell and INPEX for the provision of Supply Base services.

Activity is expected to increase over the coming 12 months. Shell is expected to commence development drilling for the Prelude Project in early FY2014. The Prelude Project will utilise FLNG technology which will liquefy the gas from a 488m long floating facility which will be moored on location for 25 years. This is expected to generate ongoing demand for supply base and offshore services over the coming years. INPEX are expected to commence a three year development drilling programme in 2015.

During the year, Woodside announced that they would not be going ahead with an on-shore processing facility at James Price Point for their Browse LNG Project. It is understood that the joint venture partners are now considering FLNG as an alternative means of commercially developing the significant reserves in the Browse Basin.

The outlook for the Broome Supply Base is very positive, with drilling and project activity throughout the region expected to drive strong demand for services.

OUTLOOK

The Australian offshore oil and gas industry will continue to develop in the medium-term with construction of a number of major projects underway.

Construction of the $52 billion Gorgon Project is expected to continue through FY2014 with downstream cargo volumes starting to taper but the major upstream construction phase about to begin.

Major offshore vessel subcontracts are yet to be awarded on Chevron's $29 billion Wheatstone Project, INPEX's $32 billion Ichthys Project and Shell's $12 billion (est) Prelude Project.

MMA's Broome Supply Base is set to benefit from increased activity in the region.

International vessel charter rates are improving on the back of solid oil and gas demand.

The overall outlook for FY2014 remains positive based on increased demand for vessel services in the region and ongoing demand for supply base services in Dampier and Broome.

PEOPLE

One of MMA's core values is People. We pride ourselves on providing a workplace built on trust, cooperation and mutual respect where our people care about their safety and the safety of those around them.

As mentioned in the Safety section of this report, MMA strives to continuously improve its safety both in terms of systems and culture across the organisation. During the year we rolled out our new "Target 365" safety strategy which focuses on everyone in the organisation coming to work each day with the aim of having a "Perfect Day", meaning a day free of incidents and injuries. It poses the question; if we can be incident free for one day, then why not the next day and the next? The strategy has been well received across the organisation with many areas of the business achieving perfect quarters, perfect half years and even a perfect year since the strategy's commencement. Unfortunately, at a Company level, and for the first time in five years, our Total Recordable Case Frequency rate increased, which was disappointing. MMA remains committed to achieving zero injuries and incidents across the organisation and I am confident that our new strategy will deliver ongoing improvements in the safety of our people.

MMA has experienced tremendous growth in recent years and this is in no small part attributable to the people involved in the business. I would like to thank my Executive Management Team and all MMA staff for their hard work and dedication during the year. I would also like to thank the Board of Directors for their ongoing guidance and counsel.

Finally, I would like to acknowledge the contribution of Captain Jim Carver who retired from the Board in July 2013. Jim founded the business in 1982 from a single vessel and over the past 30 years has made an invaluable contribution to the growth of MMA. I wish Jim all the best in his retirement.

Jeff Weber
Managing Director

Corporate Social Responsibility Statement – Health & Safety, Environment and Community

HEALTH & SAFETY

The health and safety of MMA's employees and contractors is core to the way we do business. MMA's health and safety strategy supports the Company's Mission to be injury free by eliminating all incidents in the workplace. This is reflected in our comprehensive suite of health and safety policies and procedures that guide activity across the organisation.

During the 2013 financial year, MMA's Total Recordable Case Frequency increased from 2.7 to 4.7 across the organisation. This outcome is not acceptable and is inconsistent with the downward trend exhibited in previous years. Strategies are in place to address this result and employee short-term incentive payments at all levels have been reduced to reflect this change in health and safety performance.

MMA's new operating strategy is 'Target 365 – a Perfect Day Every Day', which focuses on everyone coming to work each day with the aim of having a "Perfect Day", that is, a day free of recordable injuries and material incidents.

During the 2013 financial year, MMA implemented a number of initiatives under the Target 365 strategy, including:

- roll out of a two day leadership training program attended by all Executive Management, Senior Management and supervisory staff (a total of 122 MMA personnel in the 2013 financial year);
- installation of Health, Safety, Environment and Quality ("HSEQ") kiosks in work areas which make MMA's policies and procedures available to our people on the ground in real time; and
- a vigorous internal awareness and training campaign to target specific dangers within the work environment.

Perfect days are tracked via internal reports and communicated to staff via the Company's intranet system on a perfect day dashboard. In the 2013 financial year, MMA achieved 312 perfect days. This equates to a perfect day percentage of 85.5%.

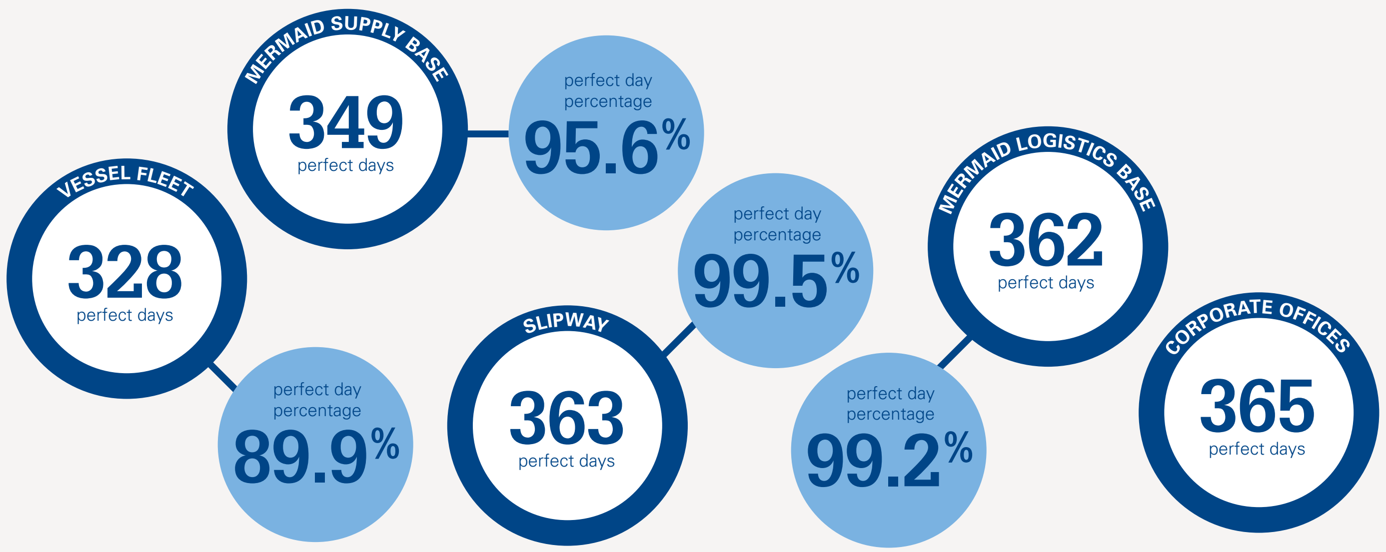
In the 2014 financial year, our organisation wide target is to have 365 perfect days.

In support of our overall health and safety strategy, MMA has a range of specific initiatives which are focused on continually improving our safety performance, including;

- a dedicated HSEQ department deployed to support business activities;
- a robust Integrated Business Management System ("IBMS");
- a program to measure Lead and Lag Indicators and report on the trends and shortfalls;
- a program to track and communicate lessons learned from Incident Reports;
- ongoing training programs for employees and contractors in health and safety risk management;
- online HSEQ induction packages enabling inductions to be conducted both remotely and on site; and
- a compliance program to maintain our license to operate, both on and offshore.

MMA was also a finalist in the National Seacare Health and Safety Awards during the 2013 financial year for the Heat Management program implemented in the North West. The Seacare Awards recognise and acknowledge successful initiatives by employers, operators, seafarers and others who are leading the way in best practice Occupational Health and Safety, rehabilitation and return to work programs.

Individual business units achieved the following results:



Target 365 – a Perfect Day Every Day

Target 365 is MMA's new operating strategy which focuses on everyone coming to work each day with the aim of having a "Perfect Day", that is, a day free of recordable injuries and material incidents.

ENVIRONMENT

MMA recognises that our operations can impact on the environment and is committed to achieving a high standard of environmental performance across all our business activities. This commitment is demonstrated within MMA's policies, procedures and management plans which aim to prevent and minimise potential impacts.

MMA's Environmental Management System is integrated into the IBMS and MMA is committed to promoting environmental awareness and accountability among our employees and contractors in line with ISO 14001: 2004 requirements.

To demonstrate compliance with the implementation conditions and environmental management commitments for our Supply Base (Ministerial Statement No. 535) and our licence for boat building and maintenance activities (Licence L4996/1993/8) at our Slipway, MMA undertakes a program of environmental monitoring. This includes monitoring of marine water quality and stormwater discharges, monitoring of sediment quality, the deployment of biosentinel oysters and the monitoring of mangroves in King Bay. The results are reported annually to the relevant regulatory authorities. In addition, MMA undertakes internal environmental compliance audits, as well as regularly being audited and inspected by clients and regulatory authorities.

MMA reports on our water savings actions and initiatives annually to the Western Australian Water Corporation, as identified in our Water Efficiency Management Plan. Water use reduction options have been implemented at our Supply Base including a commitment to construct a desalination plant at the Base, which will significantly reduce the reliance on scheme water on site. The desalination plant is due for completion in the 2014 financial year.

MMA also reports annually on our greenhouse gas emissions and energy use under the National Greenhouse and Energy Reporting Act 2007 (Commonwealth); and has been involved in the Australian Government's Energy Efficiency Opportunities program (as set out in the Energy Efficiency Opportunities Act 2006). MMA completed the first stage of its energy efficiency opportunities assessment at the head office in Fremantle during the reporting period. The results of the assessment identified a range of opportunities which led to a reduction of power consumption by 9%. Stage 2, focussing on energy efficiency at the Dampier Supply Base, is currently underway.

QUALITY

MMA maintained its quality systems accreditation (AS/NZS ISO 9001: 2008) during the reporting period. We continue to review and refine our IBMS through a process of continuous improvement projects and legal obligations mapping.

As a key activity in communicating and training employees and contractors in IBMS requirements, the Company installed a number of electronic HSEQ kiosks to provide real time access to the Company's current policies, procedures, HSE alerts, Company communications, reports, local news and weather forecasts. The HSEQ kiosks have a direct link to the corporate network and reduce reliance on hard copy documents being kept at the work front.

PEOPLE

MMA's Vision is supported by our three key values; People, Customer Relationships and Team Work. We recognise that our people are key to our success and we strive to provide a workplace built on trust, cooperation and mutual respect where everyone cares about their safety and the safety of those around them. This goal is reflected in our People Policy under which we strive to foster a diverse workplace free from discrimination where employees are engaged, valued and work with each other in an open and inclusive way.

MMA recognises that our operations can impact on the environment and is committed to achieving a high standard of environmental performance across all our business activities.

MMA is committed to the development of our people in line with our People Policy through performance feedback, training opportunities and recognition of achievement. During the 2013 financial year, we revised the format of our Performance Coaching Agreements to include individual development plans specific to the individual and ran a Leadership Fundamentals training course for 122 of our leaders. The Leadership Fundamentals course was tailor made for MMA and focused on improving leadership skills and developing a performance culture. This training is ongoing and will continue to be rolled out to all frontline leaders in the organisation.

In the 2013 financial year, we made significant changes and investment in training and development with the appointment of a dedicated Training and Development Manager. We have also taken a more structured and formal approach to training and development which is aligned with our strategic view.

COMMUNITY

MMA is committed to contributing to the economic and social wellbeing of the communities in which we work. To support our goal we strive to:

- invest in local community projects that have a positive and sustainable benefit;
- seek business opportunities with local suppliers and subcontractors;
- strive to be good corporate citizens;
- develop long term relationships with local Indigenous communities in order to increase Indigenous participation within our workforce and promote opportunities for training and development; and
- create and maintain cross cultural awareness throughout the business.

In accordance with our Community Policy, we are active in engaging with the communities in the regional areas of Dampier, Karratha and Broome, where our main operations are located. MMA has a regional sponsorship committee, which reviews sponsorship applications and allocates funds to a range of community events, charities and sporting groups in these regions. MMA also supports the local community in Fremantle, where our head corporate office is located. In the 2013 financial year MMA sponsored the annual Fremantle Festival and supported a number of other cultural and community events.

MMA is committed to the development of our people in line with our People Policy through performance feedback, training opportunities and recognition of achievement.

We pride ourselves on providing a workplace built on trust, cooperation and mutual respect where our people care about their safety and the safety of those around them.

INDIGENOUS EMPLOYMENT

MMA recognises that Indigenous Australians are statistically amongst the most disadvantaged groups in Australia. This includes in relation to employment. To ensure continuous effort on this issue, MMA has introduced an Indigenous Employment Policy to improve labour market participation by Indigenous Australians and promote cultural awareness amongst its employees. Central to the policy is achieving positive outcomes for individuals and their families in terms of social and economic engagement.

Underpinning the policy is MMA's commitment to reconciliation between Indigenous and non-Indigenous Australians and the provision of equal employment opportunities within a diverse workplace.

Specifically, the policy's objectives are for MMA to;

- increase the participation rate and employment outcomes of Indigenous Australians across all levels at MMA to at least reflect participation levels in society;
- be an employer of choice for Indigenous Australians within Western Australia;
- develop leading strategies and contribute to the national agenda in Indigenous employment and engagement;
- create a work environment that is free from discrimination, promotes an understanding of Indigenous culture, and is culturally respectful and inclusive; and
- build and develop a positive working relationship with the community and relevant stakeholders about improving employment outcomes for Indigenous Australians.

In March 2013, MMA rolled out its inaugural Strategy for Indigenous Development and Employment ("STRIDE"). STRIDE aims to provide Indigenous participants with the skills required for employment in the marine logistics industry. In close partnership with two regionally based organisations – the Ashburton Aboriginal Corporation (a Job Services Australia provider based in Karratha) and the Durack Institute of Technology (a Government owned training provider based in Geraldton), MMA designed and implemented a pre-employment program specifically targeting Indigenous Australians from regional WA areas. Eleven participants indigenous to the Karratha/Dampier and Geraldton regions commenced the program, including four females and seven males, of which four were mature age workers.

Given the particular requirements of our client group, a holistic and multifaceted training program was developed that included the following key components:

- Life Skills program;
- Certificate I in Transport and Distribution (Maritime Operations);
- Certificate II in Transport and Distribution (Maritime Operations);
- Certificate of Safety Training (STCW95);
- a number of high risk certificates, including; dogging, rigging; confined spaces and working at heights; and
- mentoring support.

The program proved a great success, with nine participants completing the training component and going on to be offered positions within the MMA workforce.

MMA's STRIDE program aims to provide Indigenous participants with the skills required for employment in the marine logistics industry. The 2013 program delivered the following results:

STRIDE Objectives	MMA Achievement
We targeted an 80% completion rate for the program.	We achieved 82% completion.
Successful participants would be considered for casual and permanent positions within the business.	We offered five positions as crew on our vessels & four positions as General Service Operators ("GSO") at the Dampier Supply Base.
Cultural Awareness training to be rolled out to personnel.	We conducted Indigenous Cultural Awareness training sessions in Dampier for Leading Hands, Supervisors & Managers.
Successful candidates will have career path opportunities into the MMA Trainee Integrated Rating ("TIR") program in Q1 2014.	The five crew members will have the opportunity to apply for MMA's 2014 TIR program.

STRIDE
TOGETHER TOWARDS SUCCESS

Corporate Governance Statement

1. INTRODUCTION

1.1 Corporate Governance

The Board of Directors ("Board") of Mermaid Marine Australia Limited ("Company" or "MMA") is responsible for the corporate governance of the consolidated entity. The Board is a strong advocate of good corporate governance as evidenced by the policies and practices outlined below. The Board regularly reviews and updates the Company's governance policies and practices by reference to corporate governance developments and best practice.

This corporate governance statement outlines the Company's corporate governance policies and practices for the year ended 30 June 2013, and at the date of this report.

1.2 Compliance with Australian Corporate Governance Standards

In accordance with the disclosure requirements of the ASX Listing Rules, the Board believes that the governance policies and practices adopted by the Company for the year ended 30 June 2013 follow the Corporate Governance Principles and Recommendations (2nd Edition, with 2010 Amendments) ("ASX Principles") set out by the ASX Corporate Governance Council.

1.3 Access to Policies/ Documents

The corporate governance documentation and policies referred to in this Corporate Governance Statement can be found on the Company's website at *www.mma.com.au/company.*

2. ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

2.1 Functions of the Board

The Board of the Company is responsible for approving the strategic direction of the Company, for guiding and monitoring the management of the Company to achieve its strategic plans. The Board aims to increase shareholder value by maximising the Company's performance while taking into account the interests of other stakeholders, including the wider community in which it operates.

The Company has a Board Charter which clearly establishes the relationship between the Board and Senior Executives and describes their separate functions and responsibilities. A copy of the Board Charter can be found on the Company's website at *www.mma.com.au/company.* The key functions and responsibilities of the Board are set out in the table under section 2.3 below.

2.2 Functions of Management

The Board has delegated to the Managing Director and his Senior Executives, authority over the day to day management of the Company and its operations.

Despite this delegation of authority, the Board maintains ultimate responsibility for strategy and control of the Company and its businesses. The key functions and responsibilities of the Managing Director and his Senior Executives are set out in the table under section 2.3 below.

2.3 Functions and Responsibilities of the Board and Senior Executives

The Board will regularly review the separation of functions and responsibilities between Senior Executives and the Board to ensure that they are appropriate to meet the Company's needs and to develop best practice standards by reference to the ASX Principles.

The roles and responsibilities of the Company's Board and Senior Executives are consistent with those set out in ASX Principle 1 and are summarised below:

Functions/Responsibilities of the Board

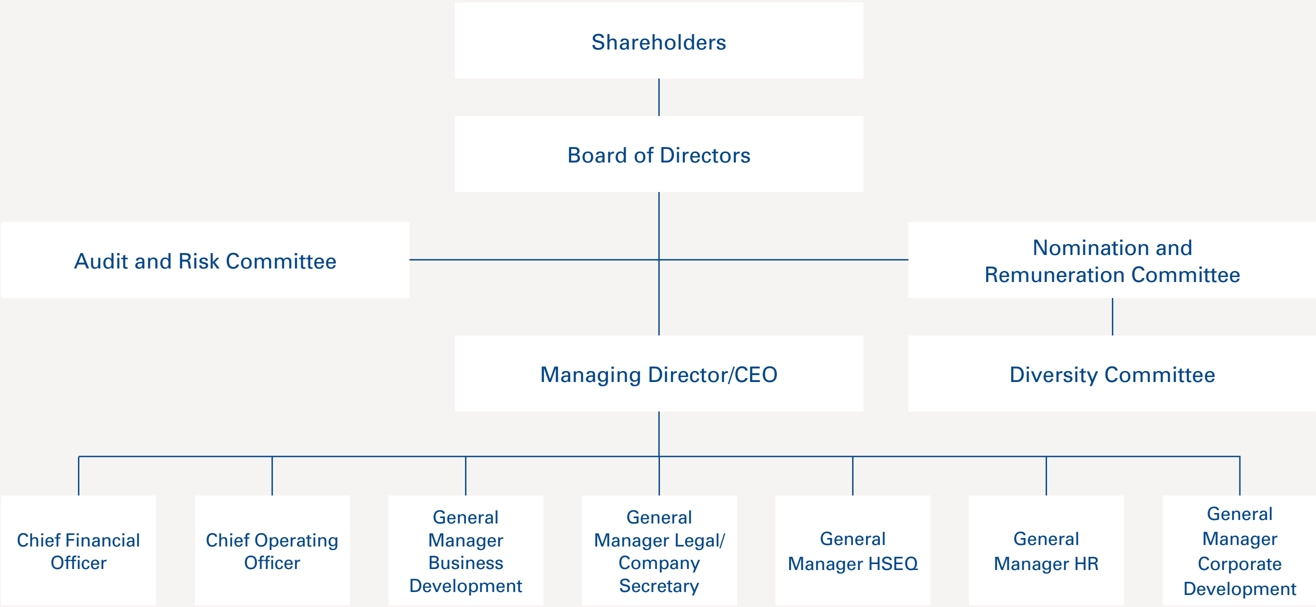
- Providing strategic direction and deciding upon the Company's business strategies and objectives;
- Monitoring the operational and financial position and performance of the Company and Senior Executives' performance and implementation of strategy;
- Ensuring that appropriate resources are available to Senior Executives;
- Identifying the principal risks faced by the Company and ensuring that appropriate control and monitoring systems are in place to manage the impact of these risks;
- Ensuring that the Company's financial and other reporting mechanisms result in adequate, accurate and timely information being provided to the Board;
- Ensuring that shareholders and the market are fully informed of all material developments;
- Overseeing and evaluating the performance of the Chief Executive Officer (CEO) or equivalent and other Senior Executives in the context of the Company's strategies and objectives;
- Appointing and, where appropriate, removing the CEO and the Company Secretary, approving the appointment (or removal) of Senior Executives, and planning for Senior Executive succession;
- Reviewing and approving the remuneration of the CEO (or equivalent) and Senior Executives;
- Approving the Company's budgets and business plans and monitoring the progress of major capital expenditures, capital management and acquisitions and divestments;
- Ensuring that financial results are appropriately and accurately reported on a timely basis;
- Reviewing, approving and monitoring the Company's systems of risk management, internal compliance and control systems (including a review of the effectiveness and implementation of the Company's risk management and internal control systems), codes of conduct and compliance with all laws, governmental regulations and accounting standards;
- Ensuring that the business is conducted openly and ethically; and
- Actively monitoring the health, safety and environmental performance of the Company.

Functions/Responsibilities of Senior Executives

- Developing business plans, budgets and strategies for consideration by the Board and, to the extent approved by the Board, implementing these plans, budgets and strategies;
- Operating the Company's business within the parameters set by the Board from time to time and keeping the Board informed of material developments in the business;
- Where proposed transactions, commitments or arrangements exceed the parameters set by the Board from time to time, referring the matter to the Board for its consideration and approval;
- Identifying, assessing, monitoring and managing material business risks associated with the Company's business activities and designing and implementing the risk management policies and internal control systems to best manage these material business risks for consideration by the Board;
- Managing the Company's current financial and other reporting mechanisms and control and monitoring systems to ensure that these mechanisms and systems capture all relevant material information on a timely basis and are functioning effectively;
- Ensuring that the Board is provided with sufficient information on a timely basis in regard to the Company's business, and in particular with respect to the Company's performance, financial condition, operating results and prospects, to position the Board to fulfil its governance responsibilities;
- Ensuring that the Company's employees understand and embrace the Company's health, safety and the environment management systems through awareness campaigns and training; and
- Implementing the policies, processes and codes of conduct approved by the Board.

2.4 The Company's Corporate Governance Model

The Company's Board and Senior Executive Management Model is illustrated below.



3. STRUCTURE AND COMPOSITION OF THE BOARD

3.1 Structure and Composition

The Company is committed to ensuring that the composition of the Board comprises directors who bring an appropriate mix of skills, experience, expertise and diversity to Board decision making. The Board is currently comprised of six Directors, with five Non-Executive Directors (including the Chairman) and one Executive Director.

Details of each Director and the period of office held by each Director in office at the date of this Annual Report are as follows:

Name	Director Status	Year of Appointment	Period in Office
Mr M Bradley	Non-Executive Director	2000	13 years
Mr A Howarth	Non-Executive Director (Chairman)	2001	12 years
Mr J Weber	Managing Director/CEO	2002	11 years
Mr A Edwards	Non-Executive Director	2009	3 years
Ms E Howell	Non-Executive Director	2012	1 year
Mr CG Heng	Non-Executive Director	2012	1 year

A description of the skills, experience and expertise of each Director in office at the date of this Annual Report is included in the Directors' Report.

A description of the procedure for the selection and appointment of new Directors and the re-election of incumbent Directors and the Board's policy for the nomination and appointment of Directors is set out in the Nomination and Remuneration Committee Charter, which is to be found under Appendix C of the Board Charter.

The Board is of the view that its current Directors possess an appropriate mix of skills, experience, expertise and diversity to enable the Board to discharge its responsibilities and deliver the Company's corporate objectives.

3.2 Board Independence

ASX Principle 2.1 requires a majority of the Board to be independent Directors. In addition, ASX Principle 2.2 requires the Chairperson of the Company to be independent.

3.2.1 Independence of the Chairman

The Chairman is elected from the independent Non-Executive Directors. Mr Tony Howarth is the present serving Chairman and is considered by the Board to be independent (having regard to the relationships affecting independent status described in Box 2.1 of the ASX Principles and other facts, information and circumstances that the Board considers relevant). Further information about the Chairman, Mr Howarth, is included in the Directors' Report of this Annual Report.

The division of responsibilities between the Chairman and the Managing Director/CEO (as agreed by the Board) are detailed in the Board Charter and are summarised below:

Responsibilities of the Chairman

In consultation with the Managing Director/CEO and Company Secretary:

- setting the agenda for the matters to be considered by the Board;
- seeking to ensure that the information provided to the Board is accurate, timely and sufficient to keep the Board properly informed of the performance of the Company and of any developments that may have a significant impact on that performance;
- seeking to ensure that communications with shareholders are accurate and effective;

Managing the conduct, frequency and length of Board meetings so as to ensure that the Board maintains an in depth understanding of the Company's financial position and performance and the opportunities and challenges facing the Company;

Facilitating open and constructive communications between Board members and encouraging their contribution to Board deliberations;

Liaising with the CEO (or equivalent) and acting as the primary interface between the Board and the CEO (or equivalent); and

Liaising with and counselling, as appropriate, Board members.

Responsibilities of the Managing Director/CEO

Developing business plans, budgets and strategies for consideration by the Board and, to the extent approved by the Board, implementing these plans, budgets and strategies;

Operating the Company's business within the parameters set by the Board from time to time and keeping the Board informed of material developments in the business;

Where proposed transactions, commitments or arrangements exceed the parameters set by the Board from time to time, referring the matter to the Board for its consideration and approval;

Identifying, assessing, monitoring and managing material business risks associated with the Company's business activities and designing and implementing the risk management policies and internal control systems to best manage these material business risks for consideration by the Board;

Managing the Company's current financial and other reporting mechanisms and control and monitoring systems to ensure that these mechanisms and systems capture all relevant material information on a timely basis and are functioning effectively;

Ensuring that the Board is provided with sufficient information on a timely basis in regard to the Company's business, and in particular with respect to the Company's performance, financial condition, operating results and prospects, to position the Board to fulfil its governance responsibilities;

Ensuring that the Company's employees understand and embrace the Company's health, safety and the environment management systems through awareness campaigns and training; and

Implementing the policies, processes and codes of conduct approved by the Board.

3.2.2 Director Independence

As defined by the Corporate Governance Council, Directors of the Company are considered to be independent when they are non-executive directors who are independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

The Board regularly reviews the independence of each Non-Executive Director in light of the relevant information disclosed to the Board. The Board assesses the independence of new Directors upon appointment and reviews their independence, and the independence of the other Directors, annually and as appropriate.

The test of whether a relationship could, or could be perceived to, materially interfere with the independent exercise of a Director's judgement is based on the nature of the relationship and the circumstances of that Director. Materiality is considered from the perspective of the Company, the Director, and the person or entity with which the Director has a relationship.

Of the six current Board members, the following five Directors are considered by the Board to be independent (having regard to the relationships affecting independent status described in Box 2.1 of the ASX Principles and other facts, information and circumstances that the Board considers relevant):

Mr A Howarth
Chairman, Non-Executive Director

Mr M Bradley
Non-Executive Director

Mr A Edwards
Non-Executive Director

Ms E Howell
Non-Executive Director

Mr CG Heng
Non-Executive Director

The Board has considered the independence of Mr Bradley who has previously been employed in an executive capacity by the Company. The Board considers Mr Bradley to be independent as there has been a period of over ten years since Mr Bradley was employed in an executive capacity – which the Board considers is sufficient for Mr Bradley to be independent.

Of the six current Board members, the following Director is not considered by the Board to be independent (having regard to the relationships affecting independent status described in Box 2.1 of the ASX Principles and other facts, information and circumstances that the Board considers relevant):

Mr J Weber
Managing Director

Therefore, the majority of the Board are considered to be independent. Further, the Chairperson of the Company is an independent Director.

In assessing the independence of each Non-Executive Director, the Board also considers the tenure which each Non-Executive Director has served on the Board (with any tenure in excess of 10 years needing further scrutiny in line with best governance practice). The Board considers that the length of time that Mr Bradley and Mr Howarth have been on the Board does not have an adverse impact on each Director's ability to bring an independent judgment to bear in decision-making. The Board considers that having some Directors who have served on the Board for longer periods helps to ensure continuity of corporate knowledge and experience.

To foster Director independence, at the outset of every Board meeting the Directors of the Company meet without management present. The discussions at these meetings are facilitated by the Chairman.

3.2.3 Conflicts of Interest

Under the Directors' Code of Conduct (Appendix D of the Board Charter), the Directors have a duty not to place themselves in a position which gives rise to a real or substantial possibility of conflict of interest or duty, in relation to any matter which is or is likely to be brought before the Board. Directors are under an ongoing obligation to disclose to the Board such interests immediately, in addition to the statutory obligation to disclose to the Board any material personal interests in a matter.

3.2.4 Access to Information and Independent Advice

All Directors have unrestricted access to employees of the Company and, subject to the law, access to all Company records and information held by the Company and its external advisers. Each Director, the Board and the Board Committees may obtain independent professional advice at the Company's expense, as considered reasonable and necessary, subject to prior approval of the Chairman. Directors are entitled to reimbursement of all reasonable costs in obtaining such independent professional advice which has been approved by the Chairman. In the case of a request made by the Chairman, approval is required from the Chairman of the Audit and Risk Committee.

3.2.5 Induction and Education

New Directors are provided with a formal letter of appointment which sets out the key terms and conditions of their appointment, including their duties, rights and responsibilities, the time commitment envisaged, expectations regarding involvement with committee work and their responsibilities with respect to acting in a capacity other than as a Director of the Company. The Company also has a Director Induction Program for new Directors which covers the Company's financial, strategic, operational and risk management position, and includes a meeting with key executives of the Company to gain an insight into the values and culture of the Company. The Director Induction Program also includes site visits to all of the Company's key operational centres. On an ongoing basis, Directors are provided with papers, presentations and briefings on matters which may affect the business or operations of the Company. To assist the Directors in maintaining an appropriate level of knowledge of the operations of the Company, Directors undertake site visits to the Company's operational centres each year.

4. COMMITTEES OF THE BOARD

The Board has established a Nomination and Remuneration Committee and an Audit and Risk Committee as standing committees to assist the Board in the discharge of its responsibilities.

These Committees review matters on behalf of the Board and (subject to the terms of the relevant committee's Charter) refer matters to the Board for decision, with a recommendation from the relevant committee.

Details of the membership, composition and responsibilities of each committee are detailed in sections 4.1 and 4.2 of this Corporate Governance Statement below.

4.1 Nomination and Remuneration Committee

4.1.1 Composition and Responsibilities

The Nomination and Remuneration Committee comprised the following members throughout the year:

Mr M Bradley (Chairman)
Independent, Non-Executive Director

Mr A Howarth
Independent, Non-Executive Director

Mr A Edwards
Independent, Non-Executive Director

Ms E Howell
Independent, Non-Executive Director

At the date of this Report, the Nomination and Remuneration Committee is comprised solely of Non-Executive Directors all of whom are independent and the Chair of the Nomination and Remuneration Committee is an independent Non-Executive Director who is not Chair of the Board.

The specific responsibilities of the Nomination and Remuneration Committee are set out in the Committee's Charter, which is to be found under Appendix C of the Board Charter and are consistent with the requirements of the ASX Principles.

Details of the qualifications of each of the above members of the Nomination and Remuneration Committee, the number of meetings of the Nomination and Remuneration Committee held during the year and the attendance at those meetings are set out in the Directors' Report.

4.1.2 Performance Evaluation and Remuneration

Senior Executive Performance Evaluation and Remuneration

The Nomination and Remuneration Committee is responsible for reviewing and making recommendations to the Board on remuneration policies, including, in particular, Senior Executive remuneration.

The objective of the Company's remuneration policy is to enhance both corporate and individual performance by taking into account all factors which it deems necessary to ensure that members of the Senior Executive of the Company are motivated to pursue the long term growth and success of the Company within an appropriate control framework and to ensure that there is a clear relationship between Senior Executive performance, Company performance and remuneration.

The performance of Senior Executives is reviewed on an annual basis. The Senior Executives of the Company are remunerated by way of a fixed annual remuneration component and an incentive or "at risk" remuneration component. The incentive or "at risk" remuneration component comprises both a short-term and long-term incentive. The mix of remuneration components and the measures of performance used in the incentive plans have been chosen by the Board to ensure that there is a strong link between remuneration, Senior Executive performance and sustainable Company performance to increase shareholder value.

Senior Executives who have an incentive or "at risk" component to their total remuneration packages, have defined performance conditions which are set at the start of the financial year (in the case of the annual short-term incentive plans) or at the commencement of the plan (in the case of the long-term incentive plans). Short-term incentives are based on the achievement of annual performance conditions, heavily weighted to Company earnings and shareholder return measures and also include non-financial goals which seek to achieve corporate objectives (including safety). For the short-term incentive plan, incentive awards are determined by the Board at the end of the financial year based on a review of overall performance of the Company and the performance of the individual against both the prescribed financial and non-financial measures set by the Board.

Long-term incentives for the 2013 financial year comprised the grant of performance rights with a three year performance hurdle based on normalised earnings per share growth and total shareholder returns. Shareholder approval is obtained for the grant of performance rights to the Managing Director. The Board exercises its discretion to grant performance rights commensurate with the overall performance of the Company and the performance of the individual during the period. Further details of the performance review process for Senior Executives are set out in the Remuneration Report of this Annual Report.

A performance evaluation for Senior Executives has taken place in the relevant reporting period in accordance with the process described above and as detailed in the Remuneration Report.

Remuneration of Senior Executives, Executive Directors and Non-Executive Directors

Details of:

- the remuneration and all monetary and non-monetary components for each of the Company's Senior Executives during the year and for each of the Directors during the year; and
- the difference in the structure of remuneration of Non-Executive Directors from that of Executive Directors and Senior Executives and the relationship between remuneration and Company performance, are set out in the Directors' Report.

There is no scheme to provide retirement benefits, other than statutory superannuation, to Non-Executive Directors.

4.1.3 Board Performance Evaluation

A performance evaluation of the Board, its Committees and Directors has taken place during the reporting period in accordance with section 12 and Appendix J of the Board Charter. This evaluation was carried out by the Nomination and Remuneration Committee with the assistance of an independent, external corporate governance consultant, Effective Governance, and involved a review of the performance of the Board, its Committees and each Director.

4.2 Audit and Risk Committee

4.2.1 Composition and Responsibilities

The Audit and Risk Committee comprised the following members throughout the year or for part of the year (where indicated):

Mr A Edwards (Chairman)
Independent, Non-Executive Director

Mr A Howarth
Independent, Non-Executive Director

Mr M Bradley
Independent, Non-Executive Director

Ms E Howell
Independent, Non-Executive Director (appointed 22 August 2012)

At the date of this Report, the Audit and Risk Committee is comprised solely of Non-Executive Directors all of whom are independent and the Chair of the Audit and Risk Committee is an independent Non-Executive Director who is not Chair of the Board.

Details of the qualifications of each of the above members of the Audit and Risk Committee, the number of meetings of the Audit and Risk Committee held during the year and the attendance at those meetings are set out in the Directors' Report.

The Audit Committee monitors internal control policies and procedures designed to safeguard Company assets and to maintain the integrity of financial reporting. The Audit and Risk Committee operates under a formal charter approved by the Board (a copy of which is to be found under Appendix B of the Board Charter).

It is the Board's responsibility to regularly review and approve the Company's risk management and oversight policies (including a review of the effectiveness of the implementation of that system) to satisfy itself that management has developed and implemented a sound system of risk management and internal control. Whilst retaining ultimate responsibility, the Board has delegated its responsibility for risk oversight, risk management and internal control to the Audit and Risk Committee. This includes monitoring the integrity of the financial statements of the Company, reviewing external reporting procedures, reviewing the performance of the Company's external audit function to ensure that independence is maintained, assessing the propriety of all related party transactions, monitoring, assessing and making recommendations to the Board in relation to the Company's business policies and procedures, internal control systems, internal audit functions, compliance with applicable laws and regulations, the Company's risk management framework and the effectiveness of the Company's management of its material business risks.

The Audit and Risk Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

4.2.2 Appointment, Rotation and Independence of the External Auditor

The Company's external auditor is Deloitte Touche Tohmatsu ("Deloitte"). The effectiveness, performance and independence of the external auditor are reviewed annually by the Audit and Risk Committee. The lead audit partner is required to rotate after a maximum of five years. Mr Ross Jerrard is currently the lead audit partner for Deloitte and was appointed on 16 April 2012. The procedure for the selection and appointment of the external auditor and the rotation of the external audit engagement partners is to be found under Appendix I of the Board Charter. Deloitte has provided the required independence declaration to the Board for the financial year ended 30 June 2013. This independence declaration forms part of the Directors' Report of this Annual Report.

During the year, the Company conducted vessel operations in a number of countries. The Company consequently incurred and paid taxation consulting and compliance fees to Deloitte and their network firms during the year in gaining a full understanding of and meeting the Company's taxation obligations in each of those countries. Details of the fees paid to the external auditor for audit and non-audit services during the year are set out in Note 30.

The Board considered that it was prudent and cost effective to engage the external auditor, Deloitte, to provide the required tax consulting and compliance services during the year because of their detailed knowledge of the Company's affairs, including its corporate tax structure. In addition, Deloitte was able to utilise the services of their network firms in the countries the Company operated in during the year to provide the necessary advice regarding the Company's tax obligations and compliance with these tax obligations within each of those countries.

Following a detailed review by the Audit and Risk Committee of the nature of the non-audit services provided by the external auditor during the year, the Board has determined that the services provided, and the amount paid for those services, are compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (Cth) and that the auditor's independence has not been compromised.

5. GOVERNANCE POLICIES

5.1 Governance Policies and Procedures

Details of the Company's Governance Policies and Procedures are contained in the Board Charter and can be located on the Company's website at *www.mma.com.au/company.* The location of the relevant Policy/Procedure is as follows:

No.	Policy / Procedure	Board Charter
A	Directors' Code of Conduct and Corporate Code of Conduct	Section 7 and Appendix D and G
B	Share Trading Policy	Section 8 and Appendix E
C	Communications Policy and Disclosure Policy	Sections 9, 10, 11 and Appendix F
D	Risk Management Policy (Summary)	Section 13 and Appendix H
E	Procedure for the Selection, Appointment and Rotation of External Auditor	Appendix I
F	Procedure for the Evaluation of the Board and its Committees	Section 12 and Appendix J
G	Diversity Policy	Section 14 and Appendix K

5.2 Diversity

5.2.1 Diversity Policy

In accordance with Recommendation 3.2 of the ASX Principles, the Company has established a Diversity Policy (a copy of which is included under Appendix K of the Board Charter).

In line with its objective to increase the overall proportion of women at all levels within the Company, within Senior Management positions and on the Board, the Company has established a Diversity Committee and appointed a Diversity Manager responsible for:

- Assisting the Board with diversity issues;
- Establishing and monitoring strategies on gender diversity;
- Implementing the measurable objectives set by the Board; and
- Reviewing achievements and progress against gender diversity objectives.

The table under section 5.2.2 below sets out the Company's measurable objectives for achieving greater gender diversity as disclosed in its 2012 Annual Report and the progress it has made towards achieving these measurable objectives. The 2013 measurable objectives agreed by the Board to improve gender diversity remain consistent with the 2012 objectives so that the Company is able to measure and demonstrate the progress it has made.

As part of its commitment to diversity, the Company has also developed and implemented is Strategy for Indigenous Development and Employment ("STRIDE"). STRIDE was developed to provide training and employment opportunities for local Indigenous Australians from the areas of Karratha, Dampier and Geraldton, Western Australia. The STRIDE program provides participants with the range of skills and qualifications needed for employment in the maritime logistics industry. Further details of the STRIDE program and the progress the Company has achieved under this program are set out in the Corporate Social Responsibility Statement of this Annual Report.

5.2.2 Measurable Objectives

As disclosed in its 2012 Annual Report, the Company has set the following measurable objectives for achieving greater gender diversity throughout the Company and on the Board for a five year period commencing 1 July 2011 and ending on 30 June 2016. As at the date of this Annual Report, the progress the Company has made in achieving these measurable objectives is as follows:

Item	Measurable Objective	Progress
1	Amend the Board Charter and the Charter of the Nomination and Remuneration Committee to formalise its responsibility for diversity and for the Nomination and Remuneration Committee to review remuneration by gender across the Company.	• This objective has been achieved as the Board Charter and the Charter of the Nomination and Remuneration Committee have been so amended.
2	Appoint a Diversity Manager and establish a Diversity Committee.	• As previously reported the Company has appointed a Diversity Manager and established a Diversity Committee. • The Diversity Committee (comprising the Managing Director, Diversity Manager and senior female managers within the Company) meets on a regular basis to oversee the implementation of the Diversity Policy and the measurable objectives set by the Board. • The Managing Director is Chairman of the Diversity Committee and reports directly to the Nomination and Remuneration Committee in relation to diversity matters.
3	Increase the representation of women in Senior Executive positions by 2016 to represent at least 10%.	• Representation of women in Senior Executive positions has increased to 12.5%. This represents a significant improvement from 2012 (2012: 0%). The Company aims to increase this representation of women in Senior Executive positions to 15% by 2016.
4	Increase the representation of women in Senior Management levels by 2016 to represent at least 30%.	• Representation of women in Senior Management levels has remained relatively stable at 24.3% (2012: 25%). Continued focus is required in this area which will be supported by the initiatives detailed in this Schedule and by complying with the Diversity Policy.
5	Appoint at least 2 female Directors to the Board.	• Ms Eve Howell was appointed as a Director to the Board on 27 February 2012. • The search for a suitable second female Director for the Company is continuing.

Item	Measurable Objective	Progress
6	Improve support for pregnancy and maternity leave and provide flexible working arrangements.	• Through the implementation of its new Maternity Leave Policy, the Company has been able to provide better support for pregnant women in the workplace and for women commencing and returning from maternity leave. • On current data, the majority of women who have taken maternity leave have returned to work for the Company, either in an equal or greater position of responsibility. • The Diversity Committee continually monitors the application of Maternity Leave Policy and reports the Company's progress to the Nomination and Remuneration Committee at each of its meetings. • The Diversity Committee has also undertaken an annual review of all part-time work arrangements to ensure that they are appropriate to maintain career development and support work/life balance.
7	Foster an equal opportunity culture.	• Through the implementation of its new recruitment procedure (which aims to create a more effective, transparent recruitment process based both on merit and the aims of the Company in achieving greater diversity) the Company has made steady progress towards its objective of fostering an equal opportunity culture. • During the financial year, the Company again conducted a company-wide Diversity and Equal Opportunity Survey to measure its progress on the findings from its 2012 survey. The results of the 2013 survey were generally very positive with a few areas still to be improved. The Company is continuing to develop initiatives, policies and procedures to address the issues identified in the 2013 survey. • The Company will continue to conduct a company-wide Diversity and Equal Opportunity Survey on an annual basis to measure its progress and the effectiveness of the policies, procedures and initiatives it has implemented in this regard.
8	Improve talent management – high potential women within the Company are identified and developed for career progression.	• The Company previously reported that over 50% of those employees for whom the Company had paid to undertake further study were women. This figure remains the same for the current reporting period. • The Diversity Committee undertook a number of successful initiatives to promote career development for high potential women within the Company. The Diversity Committee is currently in the process of identifying additional suitable candidates for inclusion in the program (including extending the program to female supervisors, Vessel Masters and Chief Engineers). • The Company also ran a successful Leadership Training Program for 122 employees in leadership roles during the reporting period with 20% of the attendees being women.

The Board will re-assess these diversity objectives annually and report on the Company's progress towards achieving them.

5.2.3 Diversity Profile

At the date of this Annual Report, the proportion of women employees within the Company is as follows:

- on the Board: 17.0% (2012: 14.0%);
- in Senior Executive positions: 12.5% (2012: 0%);
- in Senior Management positions: 24.3% (2012: 25.0%); and
- within the whole Company: 13.8% (2012: 12.0%).

The proportion of women within the whole Company is comparable with other vessel operators within the industry as seafaring is not generally a profession that women choose to participate in.

5.3 Risk Management

The Company recognises that risk is an accepted part of doing business and that effective management of risk is vital to delivering on its objectives, success and continued growth. The Company is committed to managing its material business risks in a proactive and effective manner. The Company operates a standardised risk management framework across the Group which provides an over-arching and consistent process for the identification, assessment, monitoring and management of material business risks. The Company has a risk function, separate to the internal audit function, and aligns the Company's risk management process with the International Standard for risk management (ISO 31000: 2009 Risk Management – Principles and Guidelines).

During the financial year, the Company employed a dedicated Risk Manager responsible for:

- reviewing and improving the Company's risk management framework;
- providing risk management support and guidance to ensure the effective implementation of the risk management framework; and
- developing risk management capability across the Company.

The Company's Risk Manager reports directly to the Audit and Risk Committee under the Company's Risk Management Policy.

5.3.1 Risk Management Policy

Since our Annual Report last year, the Board has approved a revised Risk Management Policy which describes the manner in which the Company:

- identifies, analyses and evaluates its material business risks;
- designs and implements appropriate risk control systems; and
- reviews the effectiveness of the control systems on a regular basis.

The Company's risk appetite and tolerance levels are set by the Board in line with the Company's strategy which has as its central focus, the creation of long-term shareholder value.

A summary of the Company's Risk Management Policy is to be found under Appendix H of the Board Charter, which is published on the Company's website at *www.mma.com.au/company*.

The Company's Risk Management Policy is reviewed at least annually or as often as required.

5.3.2 Risk Management Oversight and Responsibility

The Board is responsible for reviewing and approving the Company's risk management strategy, policy and key risk parameters. The Board is also responsible for satisfying itself that management has developed and implemented a sound system of risk management and internal control. The Board has delegated oversight of the Risk Management Policy, including review of the effectiveness of the Company's internal control system and risk management process, to the Audit and Risk Committee.
Management is responsible for designing, implementing, reviewing and providing assurance as to the effectiveness of the Risk Management Policy. This responsibility includes conducting business risk identification, implementing appropriate risk treatments, strategies and controls, monitoring effectiveness of controls and reporting on risk management performance.

In 2013, both the Audit and Risk Committee and the Board reviewed the overall risk profile for the Company and received reports from management on the effectiveness of the Company's management of its material business risks. The Company's internal audit function is responsible for providing an independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control system.

5.3.3 Risk Certification

In accordance with ASX Principle 7.2, management has reported to the Board that the Company's material business risks are being effectively managed in line with the risk management and internal control systems designed and implemented by management and approved by the Board.

In accordance with ASX Principle 7.3, the Board has received the written assurances from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act was founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

6. CHECKLIST

6.1 ASX Corporate Governance Council Recommendations Checklist

ASX Listing Rule 4.10.3 requires companies to disclose the extent to which they have complied with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition as amended on 30 June 2010) ("ASX Principles"). Where recommendations have not been followed, the Company must identify the recommendations which have not been followed and give reasons for not following them.

The Company's corporate governance practices for the year ended 30 June 2013 are outlined in the Corporate Governance Statement above.
The following table lists each of the ASX Principles and the Company's assessment of its compliance with the ASX Principles:

ASX Corporate Governance Council Recommendations		Reference	Comply
Principle 1: Lay solid foundations for management and oversight			
1.1	Companies should establish the functions reserved to the Board and those delegated to Senior Executives and disclose those functions.	2.1, 2.2 and 2.3	Yes
1.2	Companies should disclose the process for evaluating the performance of Senior Executives.	4.2.2	Yes
1.3	Companies should provide the information indicated in the *Guide to reporting on Principle 1.*	As above	Yes
Principle 2: Structure the Board to add value			
2.1	A majority of the Board should be independent Directors.	3.2.2	Yes
2.2	The Chair should be an independent Director.	3.2.1	Yes
2.3	The roles of Chair and Chief Executive Officer should not be exercised by the same individual.	3.1 and 3.2.1.	Yes
2.4	The Board should establish a Nomination Committee.	4.1	Yes
2.5	Companies should disclose the process for evaluating the performance of the Board, its Committees and individual Directors.	4.1.3 and 5.1F	Yes
2.6	Companies should provide the information indicated in the *Guide to reporting on Principle 2.*	As above and 2.1, 3.1, 3.2.2 and 3.2.4	Yes
Principle 3: Promote ethical and responsible decision-making			
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the Company's integrity • the practices necessary to take into account their legal obligations and reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	5.1A	Yes

ASX Corporate Governance Council Recommendations		Reference	Comply
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	5.2.1 and 5.1G	Yes
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	5.2.2	Yes
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in Senior Executive positions and women on the Board.	5.2.3	Yes
3.5	Companies should provide the information indicated in the *Guide to reporting on Principle 3.*	As above	Yes
Principle 4: Safeguard integrity in financial reporting			
4.1	The Board should establish an Audit Committee.	4.2	Yes
4.2	The Audit Committee should be structured so that it: • consists only of Non-Executive Directors; • consists of a majority of independent Directors; • is chaired by an independent Chair, who is not Chair of the Board; and • has at least three members.	4.2.1	Yes
4.3	The Audit Committee should have a formal charter.	4.2.1	Yes
4.4	Companies should provide the information indicated in the *Guide to reporting on Principle 4.*	As above, 4.2.2 and 5.1E.	Yes
Principle 5: Make timely and balanced disclosure			
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a Senior Executive level for that compliance and disclose those policies or a summary of those policies.	5.1C	Yes
5.2	Companies should provide the information indicated in the *Guide to reporting on Principle 5.*	As above	Yes
Principle 6: Respect the rights of shareholders			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	5.1C	Yes
6.2	Companies should provide the information indicated in the *Guide to reporting on Principle 6.*	As above	Yes

ASX Corporate Governance Council Recommendations		Reference	Comply
Principle 7: Recognise and manage risk			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	5.3.1 and 5.1D	Yes
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	5.3.2 and 5.3.3	Yes
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with s.295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	5.3.3	Yes
7.4	Companies should provide the information indicated in the *Guide to reporting on Principle 7.*	As above	Yes
Principle 8: Remunerate fairly and responsibly			
8.1	The Board should establish a Remuneration Committee.	4.1	Yes
8.2	The Remuneration Committee should be structured so that it: • consists of a majority of independent Directors • is chaired by an independent Chair; and • has at least three members.	4.1.1	Yes
8.3	Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and Senior Executives.	4.1.2	Yes
8.4	Companies should provide the information indicated in the *Guide to reporting on Principle 8.*	As above	Yes

Directors' Report

The Directors of Mermaid Marine Australia Limited ("Company" or "MMA") submit herewith the annual financial report of the Company for the financial year ended 30 June 2013. In order to comply with the provisions of the Corporations Act 2001 (Cth), the Directors report as follows:

Directors

The names and particulars of the Directors of the Company during or since the end of the financial year are:

Mr Anthony (Tony) John Howarth AO

Chairman
– Appointed 1 August 2006

Tony was appointed as a Director of the Company on 5 July 2001 and as Chairman of the Company on 1 August 2006. Tony is also currently a Non-Executive Director of Wesfarmers Limited, Alinta Holdings and BWP Management Limited. Tony worked in the banking and finance industry for over 30 years. His work has involved a number of overseas appointments. He has previously held the positions of Managing Director of Challenge Bank Limited, CEO of Hartleys Limited, Chairman of Alinta Limited, Deputy Chairman of the Bank of Queensland Limited, a Non-Executive Director of AWB Limited and Chairman of Home Building Society Limited. Tony is also Chairman of St John of God Health Care Inc. and an Adjunct Professor (Financial Management) at the University of Western Australia Business School. Tony is also involved in a number of community and business organisations including the Senate of the University of Western Australia, a member of the University of Western Australia Business School Advisory Board and the Rio Tinto WA Future Fund, Chairman of the International Chamber of Commerce Australia Ltd and a Director of the West Australian Rugby Union Inc. Tony is a member of the Company's Nomination and Remuneration Committee and the Audit and Risk Committee.

Mr Jeffrey Andrew Weber

Managing Director
– Appointed 31 December 2002

Jeff began his career as a Marine Engineer with BHP Transport. He went on to complete a degree in this field in 1993 and in 1994 graduated with a Master's in Engineering and Technology Management from the University of Queensland. During his 19 years with BHP, Jeff gained comprehensive project management experience and helped develop new business for BHP Transport in Australia and South-East Asia. He also managed a major initiative with BHP's steel division, reviewing its logistics arrangements and developing processes to improve services and reduce costs. In 1998, Jeff joined Riverside Marine in Queensland and helped expand its operations Australia-wide. This included forming a joint venture company with Wijsmuller International Towage BV, RiverWijs and negotiating with Woodside Petroleum to take over that company's harbour towage operation in Dampier, Western Australia. Jeff is also a Non-Executive Director of Maritime Super Pty Ltd, a superannuation fund dedicated to employees in the maritime industry. As Managing Director of Mermaid Marine Australia Ltd, Jeff is responsible for the financial and operational performance of all of the Company's business lines.

Mr Mark Francis Bradley

Non-Executive Director
– Appointed 22 September 2000

A Civil Engineer with a track record in senior offshore engineering management, Mark joined the J Ray McDermott company in 1977 for service on Esso's Tuna/Mackerel project in Bass Strait. During the 14 years of technically challenging work that followed, Mark held senior positions with the company in Indonesia, Singapore, Malaysia, Dubai and Saudi Arabia. Still with McDermott, but returning to Australia, he then worked on new projects in Bass Strait and, finally, the Woodside North Rankin A and Goodwyn A platforms on the North West Shelf in Western Australia. In 1991, Mark joined Clough Offshore as Project Manager of a number of North West Shelf projects. Duties in Thailand, China and Indonesia followed, and by 1993 he was Operations/Project Manager for BHP's Griffin project. In 1994, Mark became Managing Director of Clough Offshore. A highly talented manager, he then presided over that company's fivefold growth, which was to make it one of the most well-equipped, professional and competitive groups in the offshore contracting business. In 1997, Mark joined the Board of Clough Engineering as an Executive Director, retiring and becoming a Director of Mermaid Marine in 2000. Mark is the Chairman of the Company's Nomination and Remuneration Committee and a member of the Audit and Risk Committee.

Mr James Henry Carver

Executive Director
– Retired 15 July 2013

Captain James Carver is a Ships' Master with over 30 years' direct experience in the marine industry. As Woodside Petroleum's first Ships' Master, he carried out marine operations in LNG development. Captain Carver, who has been involved in exploration, construction and production for most of the oil and gas projects on the North West Shelf, has an in-depth knowledge of the industry, its needs and its future. He established Mermaid Marine in 1982 and pursued a 'can do' attitude at sea and ashore. Under his direction, the fleet grew from one to 15 vessels and the Supply Base at Dampier was secured for its present expansion.

Mr Hugh Andrew Jon (Andrew) Edwards

Non-Executive Director
– Appointed 18 December 2009

Andrew is a former Managing Partner of PriceWaterhouseCoopers, Perth Office (PWC), a former national Vice President of the Securities Institute of Australia (now the Financial Services Institute of Australasia) and a former President of the Western Australian division of that Institute. He is a Fellow of the Australian Institute of Company Directors, a Fellow of the Institute of Chartered Accountants in Australia and has served as State Chairman of the local Education Committee of that Institute and was a former member of its National Education Committee. Andrew currently serves as a Non-Executive Director of Nido Petroleum Limited and its subsidiaries and Aspire Mining Limited. Andrew is Non-Executive Chairman of MACA Ltd and is President of Activ Foundation Inc. Andrew graduated from the University of Western Australia with a Bachelor of Commerce degree. He is the Chairman of the Company's Audit and Risk Committee and a member of the Company's Nomination and Remuneration Committee.

Ms Eva Alexandra (Eve) Howell

Non-Executive Director – Appointed 27 February 2012

Eve has over 40 years of experience in the oil and gas industry in a number of technical and managerial roles. Eve was recently Executive Vice President for Health, Safety & Security at Woodside Energy Ltd and previously served as Executive Vice President of North West Shelf at Woodside and Managing Director at Apache Energy Ltd. Eve is currently Executive Chairman of Tangiers Petroleum Ltd, a Director of Downer EDI Limited, the West Australian Ballet and EMR Resources Pty Ltd. Eve also currently holds a senior advisor role with Miro Advisors Pty Ltd, an independent business focused on corporate advisory opportunities in the natural resources sector. She has previously served on a number of Boards, including the Fremantle Port Authority, the Australian Petroleum Production & Exploration Association and was a Board member and President of the Australian Mines and Metals Association. Eve holds a Bachelor of Science (with Honours in Geology and Mathematics) from the University of London and an MBA from Edinburgh Business School. Eve is a member of the Company's Nomination and Remuneration Committee and was appointed as a member of the Company's Audit and Risk Committee on 22 August 2012.

Mr Chiang Gnee Heng

Non-Executive Director – Appointed 5 July 2012

Chiang Gnee graduated as a Marine Engineer in July 1977 from the University of Newcastle Upon Tyne (UK) and spent almost 30 years working in Singapore government-linked companies and in various industries including shipyards, ordnance equipment manufacturing, aircraft engine component manufacturing, amusement and lifestyle businesses and environment management. In June 1989, Chiang Gnee attended the Sloan School of Management at MIT (USA) and graduated with a Masters in Management in July 1990. He was formerly the CEO of Sembawang Shipyard for 10 years and CEO of Sembcorp Environment Management Pte Ltd for 2 years until August 2007. Chiang Gnee is currently the Executive Director of Singapore Maritime Institute (SMI) which focuses on the development of the Singapore maritime industry – with special focus on training and education, research and development, and policy formulation. He also sits on the local boards of foreign owned companies having operations in Singapore. Chiang Gnee is also engaged in workplace health and safety management and in vocational technical education. He is Deputy Chairman of the Singapore Workplace Safety and Health Council and Deputy Chairman of the Institute of Technical Education (ITE) Board of Governors. Chiang Gnee is currently a Non-Executive Director of Mermaid Marine Asia Pte Ltd (Singapore) and Mermaid Marine Vessel Holdings Pte Ltd (Singapore).

The above named Directors held office during the whole of the financial year and since the end of the financial year, except for:

- Mr Chiang Gnee Heng – appointed 5 July 2012; and
- Mr James Henry Carver – retired 15 July 2013.

Directorships of Other Listed Companies

Directorships of other listed companies held by the Directors in the three years immediately before and since the end of the financial year are as follows:

Name	Company	Period of Directorship
Mr A Howarth	Wesfarmers Limited	Since July 2007
Mr A Howarth	BWP Management Limited	Since October 2012
Mr A Howarth	Bank of Queensland Limited	December 2007 – July 2010
Mr A Howarth	AWB Limited	March 2005 – December 2010
Mr A Edwards	Nido Petroleum Limited	Since December 2009
Mr A Edwards	MACA Ltd	Since October 2010
Mr A Edwards	Aspire Mining Limited	Since July 2011
Ms E Howell	Downer EDI Limited	Since January 2012
Ms E Howell	Tangiers Petroleum Limited	Since September 2012

Directors' Shareholdings

The following table sets out each Director's relevant interest in shares and rights or options in shares of the Company as at the date of this report:

Name	Fully paid ordinary shares direct	Fully paid ordinary shares indirect	Share options/ rights direct
Mr A Howarth	463,627	222,512	–
Mr J Weber	1,459,484	320,000	649,007
Mr M Bradley	573,819	–	–
Mr A Edwards	–	10,417	–
Ms E Howell	–	–	–
Mr CG Heng	–	–	–

The Directors do not have any interests in shares, options or rights of any related body corporate of the Company.

Remuneration of Key Management Personnel

Information about the remuneration of key management personnel is set out in the Remuneration Report of this Directors' Report on pages 45 to 58. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, either directly or indirectly, including any Director (whether executive or otherwise) of the consolidated entity.

Share Rights Granted to Directors and Senior Management

During and since the end of the financial year, an aggregate of 815,529 performance rights were granted to the following Director and to the seven highest remunerated officers of the Company as part of their remuneration:

Name	Number of rights granted	Issuing entity	Number of ordinary shares under rights
Mr J Weber	317,865	Mermaid Marine Australia Ltd	317,865
Mr D Ross	155,817	Mermaid Marine Australia Ltd	155,817
Mr P Raynor	155,817	Mermaid Marine Australia Ltd	155,817
Mr D Lofthouse	48,955	Mermaid Marine Australia Ltd	48,955
Mr D Roberts	40,563	Mermaid Marine Australia Ltd	40,563
Mr M Gillett	40,563	Mermaid Marine Australia Ltd	40,563
Mr J Rogers	34,968	Mermaid Marine Australia Ltd	34,968
Ms L Sheil Buckey	20,981	Mermaid Marine Australia Ltd	20,981

Company Secretary Mr Dylan Darbyshire-Roberts – Appointed 19 August 2008

Dylan held the position of Company Secretary of Mermaid Marine Australia Limited at the end of the financial year. He joined the Company in May 2007 in the role of Commercial Manager. Previously, he was a Senior Associate with the law firm DLA Piper Australia where he practised in the areas of insurance, corporate and marine law. After obtaining a Bachelor of Commerce degree (1995) and a LLB degree (1997) at the University of Natal (PMB), Dylan qualified as a Solicitor in South Africa, New South Wales and Western Australia. Dylan has worked in a legal capacity in all of these jurisdictions as well as the UK over the past 13 years. Dylan is an Associate of the Institute of Chartered Secretaries and Administrators and Chartered Secretaries Australia.

Principal Activities

The consolidated entity's principal activities during the course of the financial year were the provision of marine logistics and supply base services throughout all phases of the oil and gas development cycle.

There were no significant changes in the nature of the activities of the consolidated entity during the financial year.

Review of Operations

A review of, and information about the operations of the consolidated entity for the financial year and the results of those operations are set out in the Chairman's Address and the Managing Director's Review of Operations in this Annual Report.

Changes in State of Affairs

During the financial year there were no significant changes in the state of affairs of the consolidated entity other than those referred to in the financial statements or the notes thereto.

Subsequent Events

There has not been any matter or circumstance occurring 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.

Future Developments

The Chairman's Address and the Managing Director's Review of Operations give an indication, in general terms, of likely developments in the Company's operations in future financial years, and the expected results of those operations.

Environmental Regulations

The Company continues to conduct its operations within the parameters of the Department of Environmental and Conservation Licence and Ministerial requirements. There were no breaches of licence conditions for the year ended 30 June 2013.

Dividends

In respect of the financial year ended 30 June 2012, as detailed in the Directors' Report for that financial year, a final dividend of 6 cents per share franked to 100% at 30% corporate income tax rate was paid to holders of fully paid ordinary shares on 28 September 2012.

In respect of the financial year ended 30 June 2013, an interim dividend of 5.5 cents per share franked to 100% at 30% corporate income tax rate was paid

to holders of fully paid ordinary shares on 28 March 2013.

Further, in respect of the financial year ended 30 June 2013, the Directors are satisfied that the requirements under section 254T of the Corporations Act 2001 (Cth) have been met and have declared a final dividend of 7 cents per share franked to 100% at 30% corporate income tax rate to be paid on the 27 September 2013 to holders of fully paid ordinary shares in the Company on the record date of 6 September 2013.

Shares under Option/Rights and Issued on Exercise of Options/Rights

Details of unissued shares under option/rights at the date of this Report are:

Issuing entity	Number of shares under option/ rights	Class of shares	Exercise price of options/rights $	Expiry date of options/rights
Mermaid Marine Australia Ltd	42,446	Ordinary	0.00(a)	18 September 2014
Mermaid Marine Australia Ltd	1,382,355	Ordinary	3.05(b)	18 September 2014
Mermaid Marine Australia Ltd	1,096,734	Ordinary	0.00(c)	1 July 2014
Mermaid Marine Australia Ltd	331,142	Ordinary	0.00(c)	1 July 2014
Mermaid Marine Australia Ltd	615,869	Ordinary	0.00(d)	1 July 2015
Mermaid Marine Australia Ltd	317,865	Ordinary	0.00(d)	1 July 2015

a) These share options vested on 18 September 2012 and can only be exercised during their exercise period subject to the Company achieving certain performance criteria, which have been achieved, as detailed in note 27.

b) These share options vested on 18 September 2012 and can only be exercised during their exercise period subject to the Company achieving certain performance criteria, which have been achieved, as detailed in note 27.

c) These performance rights vest on 1 July 2014 subject to the Company achieving certain performance criteria as detailed in note 27.

d) These performance rights vest on 1 July 2015 subject to the Company achieving certain performance criteria as detailed in note 27.

The holders of these options/rights do not have the right, by virtue of the option/right, to participate in any share issue of the Company.

Details of shares issued during or since the end of the financial year as a result of exercise of options/vesting of rights are:

Issuing entity	Number of shares issued	Class of shares	Amount paid for shares $	Amount unpaid on shares $
Mermaid Marine Australia Ltd	1,609,739	Ordinary	1.83	Nil
Mermaid Marine Australia Ltd	213,619	Ordinary	1.83	Nil
Mermaid Marine Australia Ltd	2,428,800	Ordinary	1.60	Nil
Mermaid Marine Australia Ltd	2,911,265	Ordinary	3.05	Nil
Mermaid Marine Australia Ltd	342,102	Ordinary	0.00	Nil
Mermaid Marine Australia Ltd	956,293	Ordinary	0.00	Nil

Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company (as named above), the Company Secretary and all Executive Officers of the Company and of any related body corporate against a liability incurred in acting in their capacity as such a Director, Company Secretary or Executive Officer of the Company to the extent permitted by the Corporations Act 2001 (Cth). The relevant contract of insurance prohibits disclosure of the nature of any liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against any liability incurred in acting in their capacity as such an officer or auditor of the Company.

Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings of Committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or Committee member). During the financial year, 6 Board Meetings, 4 Audit and Risk Committee meetings and 3 Nomination and Remuneration Committee meetings were held.

	Board of Directors		Audit and Risk Committee		Nomination and Remuneration Committee	
Name	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Mr A Howarth	6	6	4	4	3	3
Mr J Weber	6	6	n/a	n/a	n/a	n/a
Mr M Bradley	6	6	4	4	3	3
Mr J Carver	6	6	n/a	n/a	n/a	n/a
Mr A Edwards	6	6	4	4	3	3
Ms E Howell	6	6	4	4	3	3
Mr CG Heng	6	5	n/a	n/a	n/a	n/a

Proceedings on Behalf of the Company

No persons have applied for leave under s.237 of the Corporations Act 2001 (Cth) to bring, or intervene in, proceedings on behalf of the Company during the financial year.

Non-Audit Services

During the year, the Company conducted vessel operations in various countries. The Company consequently incurred and paid taxation consulting and compliance fees to the external auditor, Deloitte Touche Tohmatsu ("Deloitte") and their network firms, during the year in gaining a full understanding of and meeting the Company's taxation obligations in each of those countries. Details of the amounts paid or payable to the auditor for non-audit services provided during the year are outlined in note 30 to the Financial Statements.

The Board considers that it was prudent and cost effective to engage the external auditor, Deloitte, to provide the required tax consulting and compliance services during the year because of their detailed knowledge of the Company's affairs, including its corporate tax structure. Deloitte were able to utilise the services of their network firms in the countries the Company operated in during the year to provide the necessary advice regarding the Company's tax obligations and compliance with these tax obligations within each of those countries.

In addition, the Directors are satisfied that the provision of non-audit services during the year by the auditor (or another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (Cth).

In view of the above, the Directors are of the opinion that the services as disclosed in note 30 to the Financial Statements do not compromise the external auditors' independence, based on advice received from the Audit and Risk Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing economic risks and rewards.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 59 of this Annual Report.

Rounding Off of Amounts

The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order, amounts in the Directors' Report and the Financial Statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Remuneration Report

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of the Company's key management personnel for the financial year ended 30 June 2013. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly, including any Director (whether executive or otherwise) of the Company. The prescribed details for each person covered by this report are detailed below under the following headings:

- Key Management Personnel;
- Remuneration Policy;
- Relationship between the Remuneration Policy and Company Performance;
- Remuneration of Key Management Personnel;
- Bonus and share based payments granted as compensation for the current financial year; and
- Key Terms of Employment Contracts.

Key Management Personnel

The Directors and other key management personnel of the Company during and since the end of the financial year were:

Directors

Mr A Howarth (Chairman)
(Non-Executive Director)

Mr J Weber (Managing Director)

Mr J Carver (Executive Director)
– Retired 15 July 2013

Mr M Bradley (Non-Executive Director)

Mr A Edwards (Non-Executive Director)

Ms E Howell (Non-Executive Director)

Mr CG Heng (Non-Executive Director)
– Appointed 5 July 2012

Other Key Management Personnel

Mr D Ross (Chief Operating Officer)

Mr P Raynor (Chief Financial Officer)

Mr D Lofthouse (General Manager Business Development)

Mr D Roberts (General Manager Legal/ Company Secretary)

Mr M Gillett (General Manager Human Resources)

Mr J Rogers (General Manager HSEQ) – Stepped down on 17 June 2013

Ms L Sheil Buckey (General Manager Corporate Development) – Appointed 16 November 2012

Mr D Thomas (General Manager HSEQ) – Appointed 17 June 2013

Mr D Verboon (Slipway General Manager)

Mr S Lee (Supply Base General Manager)

Mr R Furlong (Vessel Operations General Manager)

Except as noted, the above named persons held their current position for the whole of the financial year and since the end of the financial year.

Remuneration Policy

The Company's Remuneration Policy is focused on driving a performance culture within the Group by linking key management personnel remuneration to the achievement of the Company's strategic and business objectives, and ultimately, increasing shareholder value.

The Nomination and Remuneration Committee is delegated responsibility by the Board for reviewing the remuneration packages of all Directors and key management personnel on an annual basis and making recommendations to the Board in this regard. The specific responsibilities of the Nomination and Remuneration Committee are set out in the Committee's Charter, which is to be found under Appendix C of the Board Charter.

Remuneration packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries, and are adjusted by a performance factor to reflect changes in the performance of the Company.

In carrying out its review of the remuneration packages of the Managing Director and non-director key management personnel for the 2013 financial year, the Nomination and Remuneration Committee engaged the services of an independent remuneration consultant, Godfrey Remuneration Group Pty Ltd, to provide current market rates and industry benchmarking. Godfrey Remuneration Group Pty Ltd were engaged directly by the Chairman of the Nomination and Remuneration Committee and were paid the sum of $19,800 in consideration for providing their remuneration recommendations.

As the independent remuneration consultant was engaged directly by and provided their advice directly to the Chairman of the Nomination and Remuneration Committee (without management involvement), the Board is satisfied that the remuneration recommendations made were free from undue influence by any member of the key management personnel to whom the recommendations relate.

Non-Executive Directors' Fees

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool which is periodically recommended for approval by shareholders. The maximum fees payable to Non-Executive Directors are currently $950,000 per annum in aggregate (as approved by shareholders at the Company's AGM on 22 November 2012).

Fees paid to Non-Executive Directors are set at levels which reflect both the responsibilities of, and time commitments required from each Non-Executive Director to discharge their duties. Non-Executive Directors' fees are reviewed annually by the Board to ensure they are appropriate for the duties performed, including Board committee duties, and are in line with the market. Other than statutory superannuation, Directors are not entitled to retirement allowances.

Following a review by the Nomination and Remuneration Committee, Non-Executive Directors' fees were increased by 2% effective 1 July 2012 in line with the prevailing Consumer Price Index increase.

Other Key Management Personnel

Remuneration of the Managing Director and Senior Management comprises both a fixed component and an at-risk component, which is designed to remunerate key management personnel for increasing shareholder value and for achieving financial targets and business strategies set by the Board. It is also designed to attract and retain high calibre executives.

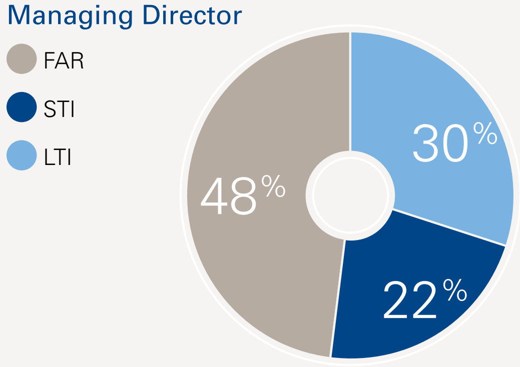
The remuneration of the Managing Director and Senior Management has the following three components:

No.	Remuneration Component	Details
1.	Fixed Annual Remuneration (FAR)	• Comprising base salary and superannuation; • In setting FAR, consideration is given to current market rates and industry benchmarking against appropriate comparator groups (including the median market rates within the sector and industry peers), Company performance and individual performance. • Based on the recommendations of the independent remuneration consultant, Godfrey Remuneration Group Pty Ltd, the Board approved an average FAR increase of 5% for the Managing Director and Senior Management for the 2013 financial year. The Board has determined that the Managing Director and Senior Management will receive a 4% increase in FAR for the 2014 financial year.
2	Short-term incentive (STI)	• An annual "at-risk" cash component designed to reward performance against the achievement of key performance indicators (KPIs). • The invitation to participate in the STI is at the absolute discretion of the Board and is subject to such conditions which the Board may prescribe from time to time. • The STI KPI's are set at the start of each financial year and are chosen to drive the achievement of the Company's strategic, financial and operating objectives set by the Board. • The STI KPI's during the financial year were a mix of financial and non-financial measures which were allocated as follows: – Financial targets (40%); – Growth targets (30%); – Business Improvement targets (15%); and – Safety targets (15%). • Further details of these KPI's and the performance against each of these KPI's are set out under the Bonus and Share Based Payments section below.
3.	Long-term incentive (LTI)	• The Company grants rights over its ordinary shares under the LTI. • The vesting of these rights is based on the achievement of stipulated performance criteria targets over a 3 year period. • These performance criteria targets comprise growth in EPS and TSR to ensure a strong link with the creation of shareholder value and were set by the Board with due regard to the Company's long-term strategy. • The LTI also aims to align executives' long-term interests with those of shareholders. • Further details of the LTI plan and the number of performance rights granted to the Managing Director and Senior Management during the financial year are set out under the Bonus and Share Based Payments section below.

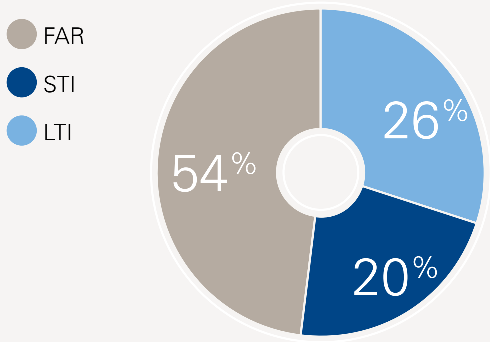
Allocation of Executive Remuneration between Fixed and Variable Remuneration

The allocation of total executive remuneration between fixed and variable remuneration for the 2013 financial year is as follows:

Managing Director



Other Executives



Relationship between the Remuneration Policy and Company Performance

The Company has once again achieved strong growth during the 2013 financial year. The table below summarises information about the Company's earnings for the 2013 financial year and the Company's earnings and movements in shareholder wealth for the five years to 30 June 2013 – which is an important indicator of performance and key measure under the STI plan.

Having regard to the overall performance of the Company during the 2013 financial year, the Board has exercised its discretion to pay STI bonuses and grant LTI performance rights to the Managing Director and Senior Management of the Company.

	30 June 2013 $'000	30 June 2012 $'000	30 June 2011 $'000	30 June 2010 $'000	30 June 2009 $'000
Revenue	449,490	380,358	285,268	193,922	160,799
Net profit before tax	83,755	71,602	58,160	41,826	33,555
Net profit after tax	60,298	51,036	43,150	37,889	26,524
Share price at start of the year	$2.82	$3.19	$2.54	$1.83	$1.55
Share price at end of the year	$3.52	$2.82	$3.19	$2.54	$1.83
Interim dividend[1]	5.5cps	5.0cps	4.0cps	3.0cps	2.0cps
Final dividend[1]	7.0cps	6.0cps	5.0cps	5.0cps	4.0cps
Basic earnings per share	26.89cps	23.44cps	21.09cps	20.40cps	14.50cps
Diluted earnings per share	26.47cps	22.93cps	20.72cps	20.00cps	14.36cps
3 year compound annual TSR[2]	15%	19%	30%	12%	46%

(1) Franked to 100% at 30% corporate income tax rate.

(2) TSR comprises share price growth and dividends.

Remuneration of Key Management Personnel

The following tables disclose the remuneration of the Directors and other key management personnel of the Company for the 2013 financial year to which this report relates and to the previous financial year:

	Short-term employee benefits			Post-employment benefits	Share based payment	Total
2013	Salary & fees	Bonus	Non-monetary[1]	Superannuation	Options & rights	
	$	$	$	$	$	$
Directors						
Mr A Howarth	228,126	–	1,760	16,598	–	246,484
Mr J Weber	867,500	423,938	2,302	25,000	561,319	1,880,059
Mr M Bradley	91,800	–	–	8,262	–	100,062
Mr J Carver[2]	220,000	–	2,136	–	–	222,136
Mr A Edwards	102,000	–	–	9,180	–	111,180
Ms E Howell	91,800	–	–	8,262	–	100,062
Mr CG Heng[3]	92,771	–	–	4,749	–	97,520
Senior Management						
Mr D Ross	500,000	199,500	1,154	25,000	258,103	983,757
Mr P Raynor	500,000	199,500	2,817	25,000	258,103	985,420
Mr D Lofthouse	351,030	91,875	2,558	16,470	77,009	538,942
Mr D Roberts	288,030	57,855	3,018	16,470	63,894	429,267
Mr M Gillett	288,030	57,855	–	16,470	70,103	432,458
Mr J Rogers[4]	246,030	49,875	–	16,470	59,824	372,199
Ms L Sheil Buckey[5]	156,651	25,000	–	16,470	26,125	224,246
Mr D Thomas[6]	2,219	–	–	199	–	2,418
Mr S Lee	222,115	32,209	46,946	16,470	27,436	345,176
Mr D Verboon	230,793	42,444	3,352	16,470	25,177	318,236
Mr R Furlong	225,030	45,885	–	16,470	18,252	305,637
Total	**4,703,925**	**1,225,936**	**66,043**	**254,010**	**1,445,345**	**7,695,259**

2012	Short-term employee benefits			Post-employment benefits	Share based payment	Total
	Salary & fees	Bonus	Non-monetary[1]	Superannuation	Options & rights	
	$	$	$	$	$	$
Directors						
Mr A Howarth	220,000	–	1,504	19,800	–	241,304
Mr J Weber	800,000	435,625	1,930	50,000	560,015	1,847,570
Mr M Bradley	90,000	–	–	8,100	–	98,100
Mr J Carver	220,000	–	3,332	–	–	223,332
Mr A Edwards	100,000	–	–	9,000	–	109,000
Ms E Howell	28,385	–	–	2,555	–	30,940
Senior Management						
Mr D Ross	475,000	205,000	14,241	25,000	239,572	958,813
Mr P Raynor	475,000	205,000	2,950	25,000	239,572	947,522
Mr D Lofthouse	334,225	71,750	3,843	21,445	75,784	507,047
Mr D Roberts	274,225	59,450	2,937	20,022	54,883	411,517
Mr M Gillett	274,225	59,450	–	20,022	47,182	400,879
Mr J Rogers	234,225	51,250	–	20,022	64,280	369,777
Mr S Lee	209,306	33,762	121,478	18,607	32,623	415,776
Mr D Verboon	196,975	31,913	4,794	19,105	29,467	282,254
Mr R Furlong[7]	206,972	34,500	–	18,531	19,837	279,840
Mr E Graham[8]	50,059	–	–	17,708	(21,666)[8]	46,101
Total	**4,188,597**	**1,187,700**	**157,009**	**294,917**	**1,341,549**	**7,169,772**

[1] These non-monetary benefits comprise the provision of housing, motor vehicle, fuel, travel and other benefits, as applicable.

[2] Retired 15 July 2013.

[3] Appointed 5 July 2012.

[4] Stepped down from role of GM HSEQ on 17 June 2013.

[5] Appointed to the role of GM Corporate Development on 16 November 2012.

[6] Appointed to the role of GM HSEQ on 17 June 2013.

[7] Appointed to the role of Vessel Operations General Manager on 27 February 2012.

[8] Retired as GM Corporate Development on 11 October 2011. Unvested rights and options lapsed on a pro-rata basis in accordance with the terms of the respective plans.

No key management personnel appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.

Bonus and share based payments granted as compensation for the current financial year

Bonuses (STI)

Having regard to the overall performance of the Company during the respective financial years, the Managing Director and Senior Management personnel were granted cash bonuses for the 2013 and 2012 financial years as noted above. The bonuses were granted on 30 June each year. The respective amounts under the STI were subject to a number of specified key performance targets being achieved. The STI performance targets for the 2013 financial year and the Company's performance against these targets are summarised in the table below:

STI Performance Target[1]	Comprising	Weighting	Weighted Actual Performance
Financial Targets	Combination of EBITDA, PBT and EPS growth targets.	40%	40%
Growth Targets	Identified business growth targets, including growth of the Supply Base, the Company's international operations, penetration of new markets/clients and securing long-term vessel contracts.	30%	35%
Business Improvement Targets	Identified business improvement targets, including identified cost reduction/ efficiency targets and business process improvement targets.	15%	13.75%
Safety Targets[2]	Identified health/safety targets for each business unit and the Company as a whole (including identified TRCF safety targets), identified targets under the Company's Target 365 safety program and identified staff attraction and retention targets.	15%	6.25%
Total		**100%**	**95%**

[1] The Company has not disclosed the specific STI performance targets as from a competition point of view, many of these are market sensitive.

[2] The Company's performance against its health/safety targets is detailed in the Corporate Social Responsibility Statement of this Annual Report.

Subject to the above STI performance targets being met, the Managing Director is eligible for a cash bonus of 50% of his base salary and superannuation with an up-lift to a maximum of 67.5% for over-performance. The actual performance against the STI performance targets for the 2013 financial year resulted in the Managing Director, Mr J Weber, receiving a cash bonus of 48% of his base salary, non-monetary benefit and superannuation (2012: 51%).

Subject to the STI performance targets being met, the other key management personnel are eligible for a cash bonus of up to 40% of their base salary and superannuation with an up-lift for over-performance. Based on the actual performance against the STI performance targets for the 2013 financial year, other key management personnel received a cash bonus component of up to 38% of their base salary, non-monetary benefit and superannuation (2012: 41%).

Employee share options and rights plans (LTI)

Under its LTI remuneration component, the Company operates share option and rights schemes for the Managing Director, Senior Management and other employees. Each share option or right converts into one ordinary share of Mermaid Marine Australia Limited on exercise or vesting. No amounts are paid or payable by the recipient upon grant of the options or rights. The options or rights carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. Please refer to the table below for details of the performance criteria for the rights granted during the year.

The table below sets out the relevant performance criteria for the performance rights granted to the Managing Director, Chief Operating Officer and Chief Financial Officer during the financial year:

Performance criteria	Performance period	Percentage of LTI subject to performance criteria	Performance criteria targets	Percentage of performance rights which vest if target met
Normalised Earnings Per Share (EPS) growth[1]	Beginning 1 July 2012 and ending 30 June 2015	25%	Less than 6%	Nil
			Equal to 6%	50%
			Between 6% and 12.5%	50% to 100% (pro-rata)
			Equal to 12.5%	100%
Company's Total Shareholder Return (TSR)[2] percentile ranking over the Performance Period relative to a selected Peer Group[3]	Beginning 1 July 2012 and ending 30 June 2015	75%	Below the 50th percentile	Nil
			At the 50th percentile	50%
			Between the 50th percentile and the 90th percentile	50% to 100% (pro-rata)
			At the 90th percentile	100%

The table below sets out the relevant performance criteria for the performance rights granted to other Senior Management (ie. excluding the Managing Director, Chief Operating Officer and Chief Financial Officer) during the financial year:

Performance criteria	Performance period	Percentage of LTI subject to performance criteria	Performance criteria targets	Percentage of performance rights which vest if target met
Normalised Earnings Per Share (EPS) growth[1]	Beginning 1 July 2012 and ending 30 June 2015	25%	Below 6%	Nil
			Between 6% and 10%	50% to 100% (on a straight line basis)
			Above 10%	100%
Company's Total Shareholder Return (TSR)[2] percentile ranking over the Performance Period relative to a selected Peer Group[3]	Beginning 1 July 2012 and ending 30 June 2015	75%	Below the 50th percentile	Nil
			Between the 50th percentile and the 75th percentile	50% to 100% (on a straight line basis)
			Above the 75th percentile	100%

(1) Normalised Earnings Per Share (EPS) growth means the growth in earnings per share of the Company, annualised over the Performance Period, to be determined in a manner decided by the Board in its absolute discretion (including any determination that the impact of one-off or non-recurring items should be excluded for the purposes of the calculation).

(2) Total Shareholder Return (TSR) means, broadly, the increase in the share price plus dividends paid (calculated in Australian dollars), excluding franking credits and taxation, over the Performance Period, to be determined in a manner decided by the Board in its absolute discretion.

(3) Peer Group means the peer group comprising the following ASX-listed companies, the composition of which may be changed by the Board in its absolute discretion:

Ausenco Limited (ASX: AAX), Asciano Limited (ASX:AIO), Ausdrill Limited (ASX:ASL), Boart Longyear Limited (ASX:BLY), Clough Limited (ASX: CLO), Emeco Holdings Limited (ASX:EHL), Fleetwood Corporation Limited (ASX:FWD), Imdex Limited (ASX:IMD), Macmahon Holdings Limited (ASX:MAH), Miclyn Express Offshore Limited (ASX:MIO), Programmed Maintenance Services Ltd (ASX:PRG), QUBE Logistics Holdings Limited (ASX:QUB), Skilled Group Limited (ASX:SKE), Toll Holdings Limited (ASX: TOL), Tox Free Solutions Limited (ASX:TOX).

During the financial year, the following share option and rights schemes were in existence:

Series	Number issued	Grant date	Expiry date	Exercise price $	Fair value at grant date $	Vesting date
(1) 22 Nov 2007 (a)	970,040	22 Nov 2007	11 Oct 2012	1.83	0.39	11 Oct 2010
(2) 23 Oct 2007 (b)	2,576,788	23 Oct 2007	11 Oct 2012	1.83	0.45	11 Oct 2010
(3) 24 Jan 2008 (b)	487,714	24 Jan 2008	24 Jan 2013	1.83	0.45	24 Jan 2011
(4) 23 Sep 2008 (c)	1,385,432	23 Sep 2008	23 Sep 2013	1.60	0.26	23 Sep 2011
(5) 27 Nov 2008 (d)	1,277,584	27 Nov 2008	23 Sep 2013	1.60	0.08	23 Sep 2011
(6) 22 Sep 2009 (e)	475,705	22 Sep 2009	18 Sep 2014	0.00	1.43	18 Sep 2012
(7) 22 Sep 2009 (f)	3,112,049	22 Sep 2009	18 Sep 2014	3.05	0.46	18 Sep 2012
(8) 1 Dec 2009 (g)	1,488,356	1 Dec 2009	18 Sep 2014	3.05	0.47	18 Sep 2012
(9) 20 Oct 2010 (h)	780,082	20 Oct 2010	1 Jul 2013	0.00	1.62	1 Jul 2013
(10) 25 Nov 2010 (h)	266,351	25 Nov 2010	1 Jul 2013	0.00	1.62	1 Jul 2013
(11) 18 Oct 2011 (i)	848,863	18 Oct 2011	1 Jul 2014	0.00	2.06	1 Jul 2014
(12) 18 Oct 2011 (i)	324,650	18 Oct 2011	1 Jul 2014	0.00	1.89	1 Jul 2014
(13) 24 Nov 2011 (i)	331,142	24 Nov 2011	1 Jul 2014	0.00	1.69	1 Jul 2014
(14) 25 Oct 2012 (j)	311,634	25 Oct 2012	1 Jul 2015	0.00	2.28	1 Jul 2015
(15) 25 Oct 2012 (j)	283,254	25 Oct 2012	1 Jul 2015	0.00	2.42	1 Jul 2015
(16) 22 Nov 2012 (j)	317,865	22 Nov 2012	1 Jul 2015	0.00	2.47	1 Jul 2015
(17) 20 Dec 2012 (j)	20,981	20 Dec 2012	1 Jul 2015	0.00	2.42	1 Jul 2015

(a) In accordance with the terms of the Managing Director's Share Option Plan – October 2007, 970,040 share options vested on 11 October 2010 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 11 October 2007 and ending on 11 October 2010 and a maximum period of five years commencing on 11 October 2007 and ending on 11 October 2012. This performance hurdle has been met.

(b) 15% of the options issued on 23 October 2007 and 24 January 2008 vested 36 months after their issue date. The remaining 85% may be exercised subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years from issue date and a maximum period of five years from issue date. This performance hurdle has been met.

(c) In accordance with the terms of the Senior Executive Share Option Plans, 1,385,432 share options vested on 23 September 2011 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 23 September 2008 and ending on 23 September 2011 and a maximum period of five years commencing on 23 September 2008 and ending on 23 September 2013. This performance hurdle has been met.

(d) In accordance with the terms of the Managing Director's Share Option Plan – 2008, 1,277,584 share options vested on 23 September 2011 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 23 September 2008 and ending on 23 September 2011 and a maximum period of five years commencing on 23 September 2008 and ending on 23 September 2013. This performance hurdle has been met.

(e) In accordance with the terms of the Mermaid Marine Share Option Plan (amended September 2009), 475,705 share options issued to employees vested on 18 September 2012 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 18 September 2009 and ending on 18 September 2012 and a maximum period of five years commencing on 18 September 2009 and ending on 18 September 2014. This performance hurdle has been met.

(f) In accordance with the terms of the Senior Executive Share Option Plan (amended September 2009), 3,112,049 share options vested on 18 September 2012 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 18 September 2009 and ending on 18 September 2012 and a maximum period of five years commencing on 18 September 2009 and ending on 18 September 2014. This performance hurdle has been met.

(g) In accordance with the terms of the Managing Director's Share Option Plan – 2009, 1,488,356 share options vested on 18 September 2012 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 18 September 2009 and ending on 18 September 2012 and a maximum period of five years commencing on 18 September 2009 and ending on 18 September 2014. This performance hurdle has been met.

(h) In accordance with the terms of the Mermaid Marine Australia Limited Performance Rights Plan – 2010 (granted on 20 October 2010) and the Mermaid Marine Australia Limited Managing Director's Performance Rights Plan – 2010 (as approved by shareholders at the Company's AGM on 25 November 2010), the number of performance rights which vested on 1 July 2013 was subject to the growth in the Earnings per Share of Mermaid Marine Australia Limited and the total shareholder return of the Company relative to a selected peer group of companies as disclosed in the Company's 2011 Remuneration Report. All of the relevant performance criteria over the specified performance period have been satisfied under the 2010 Performance Right Plan Rules.

(i) In accordance with the terms of the Mermaid Marine Australia Limited Performance Rights Plan – 2011 (granted on 18 October 2011) and the Mermaid Marine Australia Limited Managing Director's Performance Rights Plan – 2011 (as approved by shareholders at the Company's AGM on 24 November 2011), the number of performance rights which vest on 1 July 2014 will depend on the growth in the Earnings per Share of Mermaid Marine Australia Limited and the total shareholder return of the Company relative to a selected peer group of companies as disclosed in last year's Remuneration Report.

(j) In accordance with the terms of the Mermaid Marine Australia Limited Performance Rights Plan – 2012 (granted on 25 October 2012 and 20 December 2012) and the Mermaid Marine Australia Limited Managing Director's Performance Rights Plan – 2012 (as approved by shareholders at the Company's AGM on 22 November 2012), the number of performance rights which vest on 1 July 2015 will depend on the growth in the Earnings per Share of Mermaid Marine Australia Limited and the total shareholder return of the Company relative to a selected peer group of companies in accordance with the table on page 52.

The following grants of share based payment compensation to the Managing Director and Key Management Personnel relate to the current financial year:

		During the financial year				
Name	**Grant date**	**Number granted**	**Number vested**	**% of grant vested**	**% of grant forfeited**	**% of compensation for the year consisting of share based payment**
Mr J Weber	22 November 2012	317,865	–	–	–	29.9%
Mr D Ross	25 October 2012	155,817	–	–	–	26.2%
Mr P Raynor	25 October 2012	155,817	–	–	–	26.2%
Mr D Lofthouse	25 October 2012	48,955	–	–	–	14.3%
Mr D Roberts	25 October 2012	40,563	–	–	–	14.9%
Mr M Gillett	25 October 2012	40,563	–	–	–	16.2%
Mr J Rogers	25 October 2012	34,968	–	–	–	16.1%
Ms L Sheil Buckey	20 December 2012	20,981	–	–	–	11.7%
Mr S Lee	25 October 2012	15,891	–	–	–	7.9%
Mr D Verboon	25 October 2012	14,880	–	–	–	7.9%
Mr R Furlong	25 October 2012	16,086	–	–	–	6.0%

During the financial year, the following Key Management Personnel exercised options that were granted to them as part of their compensation. Each option converts into one ordinary share of Mermaid Marine Australia Limited.

Name	Number of options exercised and rights vested	Number of ordinary shares of Mermaid Marine Australia Ltd	Amount paid $	Amount unpaid $
Mr J Weber	3,735,980	3,735,980	8,358,793	Nil
Mr D Ross	1,144,826	1,144,826	2,257,135	Nil
Mr P Raynor	1,210,366	1,210,366	2,939,791	Nil
Mr D Lofthouse	292,497	292,497	782,316	Nil
Mr D Roberts	107,661	107,661	328,366	Nil
Mr S Lee	65,190	65,190	119,298	Nil
Mr R Furlong	85,049	85,049	259,400	Nil

The following table summarises the value of options and rights to Key Management Personnel which were granted, exercised or lapsed during the financial year.

Name	Value of rights granted at grant date $	Value of options/ rights at exercise/ vesting date $	Value of options/ rights lapsed at lapse date $
Mr J Weber	785,127	13,546,945	–
Mr D Ross	355,263	3,962,759	–
Mr P Raynor	355,263	4,416,325	–
Mr D Lofthouse	118,471	1,101,137	–
Mr D Roberts	98,162	437,103	–
Mr M Gillett	98,162	–	–
Mr J Rogers[1]	84,623	–	–
Ms L Sheil Buckey	50,774	–	–
Mr D Thomas[2]	–	–	–
Mr S Lee	38,456	202,089	–
Mr D Verboon	36,010	–	–
Mr R Furlong	38,928	345,299	–

[1] Stepped down from role of GM HSEQ on 17 June 2013.

[2] Appointed 17 June 2013.

The Board has adopted a Share Trading Policy that, among other things, prohibits executives from entering into transactions that limit the economic risk of participating in unvested employee entitlements. The policy also requires executives proposing to enter into arrangements that limit the economic risk of a vested holding in the Company's securities to first obtain approval from the Chairman of the Board (or, in the case of the Chairman, prior approval of the Chairman of the Audit and Risk Committee) and subsequently provide details of the dealing within five business days of the dealing taking place. Any breach of the Share Trading Policy is taken very seriously by the Company and is subject to disciplinary action, including possible termination of a person's employment or appointment. A copy of the Company's Share Trading Policy is set out in section 8 and Appendix E of the Board Charter.

Key Terms of Employment Contracts

As at the date of this report, the Managing Director and key management personnel are all employed by the Company under an employment contract, none of which are of fixed-term duration.

These employment contracts may be terminated by either party giving the required notice and subject to termination payments as detailed below:

Jeff Weber – Managing Director

- The Remuneration Package consists of an annual base salary and a short-term incentive component and a long-term incentive component at the discretion of the Nomination and Remuneration Committee and the Board.
- The Company and the employee are required to provide six months' notice of termination.
- If the employee is terminated without cause or is made redundant as a result of a material diminution in the nature and level of responsibilities or functions of the employee's position with the Company as a publicly listed company located in Perth, Western Australia, including without limitation through a change in control of the Company, the employee will be entitled to a payment being the lesser of either:
  - 1.5 times the Fixed Annual Remuneration in the relevant year (excluding any short term incentives or long term incentives); or
  - the maximum amount that may be paid to the Managing Director under the ASX Listing Rules and the Corporations Act without prior shareholder approval.

David Ross – Chief Operating Officer

- The Remuneration Package consists of an annual base salary and a short-term incentive component and a long-term incentive component at the discretion of the Nomination and Remuneration Committee and the Board.
- The Company and the employee are required to provide six months' notice of termination.
- If the employee is terminated without cause or is made redundant as a result of a material diminution in the nature and level of responsibilities or functions of the employee's position with the Company as a publicly listed company located in Perth, Western Australia, including without limitation through a change in control of the Company, the employee will be entitled to a payment being the lesser of either:
  - 1.5 times the Fixed Annual Remuneration in the relevant year (excluding any short term incentives or long term incentives); or
  - the maximum amount that may be paid to the Chief Operating Officer under the ASX Listing Rules and the Corporations Act without prior shareholder approval.

Peter Raynor – Chief Financial Officer

- The Remuneration Package consists of an annual base salary and a short-term incentive component and a long-term incentive component at the discretion of the Nomination and Remuneration Committee and the Board.
- The Company and the employee are required to provide six months' notice of termination.
- If the employee is terminated without cause or is made redundant as a result of a material diminution in the nature and level of responsibilities or functions of the employee's position with the Company as a publicly listed company located in Perth, Western Australia, including without limitation through a change in control of the Company, the employee will be entitled to a payment being the lesser of either:
  - 1.5 times the Fixed Annual Remuneration in the relevant year (excluding any short term incentives or long term incentives); or
  - the maximum amount that may be paid to the Chief Financial Officer under the ASX Listing Rules and the Corporations Act without prior shareholder approval.

David Lofthouse – General Manager Business Development

- Remuneration consists of an annual base salary and statutory superannuation contributions.
- The employee may participate in the Company's incentive scheme at the discretion of the Company.
- The Company and employee are required to provide 6 weeks' notice of termination.
- No termination benefits are payable.

Dylan Roberts – General Manager Legal/ Company Secretary

- Remuneration consists of an annual base salary and statutory superannuation contributions.
- The employee may participate in the Company's incentive scheme at the discretion of the Company.
- The Company and employee are required to provide 6 weeks' notice of termination.
- No termination benefits are payable.

Michael Gillett – General Manager Human Resources

- Remuneration consists of an annual base salary and statutory superannuation contributions.
- The employee may participate in the Company's incentive scheme at the discretion of the Company.
- The Company and employee are required to provide 8 weeks' notice of termination.
- No termination benefits are payable.

Liz Sheil Buckey – General Manager Corporate Development

- Remuneration consists of an annual base salary and statutory superannuation contributions.
- The employee may participate in the Company's incentive scheme at the discretion of the Company.
- The Company and employee are required to provide 30 days' notice of termination.
- No termination benefits are payable.

Darren Thomas – General Manager HSEQ

- Remuneration consists of an annual base salary and statutory superannuation contributions.
- The employee may participate in the Company's incentive scheme at the discretion of the Company.
- The Company and employee are required to provide 12 weeks' notice of termination.
- No termination benefits are payable.

Shaun Lee – Supply Base General Manager

- Remuneration consists of an annual base salary and statutory superannuation contributions.
- The employee may participate in he Company's incentive scheme at the discretion of the Company.
- The Company and employee are required to provide 30 days' notice of termination.
- No termination benefits are payable.

Dirk Verboon – Slipway General Manager

- Remuneration consists of an annual base salary and statutory superannuation contributions.
- The employee may participate in the Company's incentive scheme at the discretion of the Company.
- The Company and employee are required to provide 30 days' notice of termination.
- No termination benefits are payable.

Richard Furlong – Vessel Operations General Manager

- Remuneration consists of an annual base salary and statutory superannuation contributions.
- The employee may participate in the Company's incentive scheme at the discretion of the Company.
- The Company and employee are required to provide 8 weeks' notice of termination.
- No termination benefits are payable.

This Directors' Report is signed in accordance with a resolution of Directors made pursuant to s.298(2) of the Corporations Act 2001 (Cth).

On behalf of the Directors,

Tony Howarth AO
Chairman
Fremantle, 19 September 2013

Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
Mermaid Marine Australia Limited
Endeavour Shed
1 Mews Road
Fremantle WA 6160

19 September 2013

Dear Directors

Auditors Independence Declaration to 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 audit of the financial statements of Mermaid Marine Australia Limited for the financial year ended 30 June 2013, 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 audit; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ross Jerrard
Partner
Chartered Accountants

Audit Report

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the members of Mermaid Marine Australia Limited

Report on the Financial Report

We have audited the accompanying financial report of Mermaid Marine Australia Limited, which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 62 and pages 66 to 116.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Auditor's Independence Declaration

In conducting our audit, 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 report.

Opinion

In our opinion:

(a) the financial report of Mermaid Marine Australia Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 45 to 58 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Mermaid Marine Australia Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ross Jerrard
Partner
Chartered Accountants
Perth, 19 September 2013

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;

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;

c) in the Directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 3.1 to the financial statements; and

d) the Directors have been given the declarations required by s.295A of the Corporations Act 2001 (Cth).

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company, which is party to the deed, guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 31 to the Financial Statements will, as a Group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001 (Cth).

On behalf of the Directors,

Tony Howarth AO
Chairman
Fremantle, 19 September 2013

MMA commenced its first major drilling support contract during the year with the PSV, Mermaid Leveque, supporting the Ensco 109 jack up rig for Santos.

Financial Statements 2013

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2013

	Note	2013 $'000	2012 $'000
Revenue	5(a)	449,490	380,358
Interest Income		1,261	1,962
Other losses	5(b)	(163)	(345)
Share of profits of jointly controlled entity	12	3,893	362
Vessel expenses		(239,249)	(222,965)
Supply Base expenses		(96,066)	(53,015)
Slipway expenses		(14,196)	(12,612)
Administration expenses		(11,427)	(12,013)
Finance costs	5(c)	(9,788)	(10,130)
Profit before tax		83,755	71,602
Income tax expense	7	(23,457)	(20,566)
PROFIT FOR THE YEAR		**60,298**	**51,036**
Other Comprehensive Income, net of tax			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translation of foreign operations	22	14,166	7,136
Gain/(loss) on cash flow hedges	22	1,822	(921)
Transfer of cash flow hedge loss to initial carrying amount of fixed asset	22	973	1,768
Other comprehensive income for the year, net of tax		16,961	7,983
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**77,259**	**59,019**
Profit attributable to owners of the Company		60,298	51,036
Total comprehensive income attributable to owners of the Company		77,259	59,019
Earnings per share			
– Basic (cents per share)	6	26.89	23.44
– Diluted (cents per share)	6	26.47	22.93

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 2013

	Note	2013 $'000	2012 $'000
Current Assets			
Cash and cash equivalents	24(a)	58,824	55,283
Trade and other receivables	9	122,231	83,441
Inventories	10	2,454	1,555
Other financial assets	13	2,030	–
Other	11	9,118	12,195
Total Current Assets		**194,657**	**152,474**
Non-Current Assets			
Investments accounted for using the equity method	12	8,915	5,022
Other financial assets	13	2,000	2,000
Property, plant and equipment	14	448,195	377,679
Goodwill	15	20,710	20,710
Total Non-Current Assets		**479,820**	**405,411**
Total Assets		**674,477**	**557,885**
Current Liabilities			
Trade and other payables	16	48,329	41,614
Unearned revenue	17	11,274	4,023
Borrowings	18	29,196	21,762
Other financial liabilities	19	–	765
Provisions	20	8,293	5,961
Current tax liabilities	7(c)	8,912	7,426
Total Current Liabilities		**106,004**	**81,551**
Non-Current Liabilities			
Unearned revenue	17	–	2,748
Borrowings	18	150,443	136,363
Provisions	20	1,986	1,204
Deferred tax liabilities	7(d)	13,018	14,240
Total Non-Current Liabilities		**165,447**	**154,555**
Total Liabilities		**271,451**	**236,106**
Net Assets		**403,026**	**321,779**
Equity			
Issued capital	21	226,382	197,694
Reserves	22	2,280	(15,745)
Retained earnings	23	174,364	139,830
Total Equity		**403,026**	**321,779**

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 2013

	Issued capital	Employee equity settled benefits reserve	Hedging reserve	Foreign currency translation reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2011	**186,416**	**2,165**	**(1,612)**	**(27,712)**	**110,469**	**269,726**
Profit for the year	–	–	–	–	51,036	51,036
Other comprehensive income for the year	–	–	847	7,136	–	7,983
Total comprehensive income for the year	**–**	**–**	**847**	**7,136**	**51,036**	**59,019**
Payment of dividends	–	–	–	–	(21,675)	(21,675)
Issue of shares under dividend reinvestment plan	8,660	–	–	–	–	8,660
Issue of shares under employee option plans	2,208	–	–	–	–	2,208
Related income tax benefit	–	1,718	–	–	–	1,718
Transfer to share capital	410	(410)	–	–	–	–
Recognition of share based payments	–	2,123	–	–	–	2,123
Balance at 30 June 2012	**197,694**	**5,596**	**(765)**	**(20,576)**	**139,830**	**321,779**
Profit for the year	–	–	–	–	60,298	60,298
Other comprehensive income for the year	–	–	2,795	14,166	–	16,961
Total comprehensive income for the year	**–**	**–**	**2,795**	**14,166**	**60,298**	**77,259**
Payment of dividends	–	–	–	–	(25,764)	(25,764)
Issue of shares under dividend reinvestment plan	10,044	–	–	–	–	10,044
Issue of shares under employee option plans	16,102	–	–	–	–	16,102
Related income tax benefit	–	1,622	–	–	–	1,622
Transfer to share capital	2,542	(2,542)	–	–	–	–
Recognition of share based payments	–	1,984	–	–	–	1,984
Balance at 30 June 2013	**226,382**	**6,660**	**2,030**	**(6,410)**	**174,364**	**403,026**

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 2013

	Note	2013 $'000	2012 $'000
Cash flows from Operating Activities			
Receipts from customers		459,186	394,562
Interest received		1,111	1,650
Payments to suppliers and employees		(358,184)	(288,769)
Income tax paid		(21,490)	(17,719)
Interest and other costs of finance paid		(9,788)	(10,130)
Net cash provided by Operating Activities	24(c)	70,835	79,594
Cash flows from Investing Activities			
Payments for property, plant and equipment		(89,026)	(66,573)
Proceeds from sale of property, plant and equipment		23	100
Net cash outflow on purchase of business		–	(11,950)
Amounts advanced to jointly controlled entity		–	(1,250)
Net cash used in Investing Activities		(89,003)	(79,673)
Cash flows from Financing Activities			
Proceeds from issue of shares		16,102	2,208
Proceeds from borrowings		45,403	129,717
Repayment of borrowings		(25,025)	(118,448)
Dividends paid		(15,720)	(13,042)
Net cash provided by Financing Activities		20,760	435
Net increase in cash and cash equivalents		2,592	356
Cash and cash equivalents at the beginning of the financial year		55,283	55,090
Effects of exchange rate changes on the balance of cash held in foreign currencies		949	(163)
Cash and cash equivalents at the end of the financial year		**58,824**	**55,283**

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 2013

1. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

1.1 Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements.

Standards affecting presentation and disclosure	
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	The amendments require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Standards and Interpretations affecting the reported results or financial position

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reported results or financial position.

1.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective:-

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards.	1 January 2015	30 June 2016
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangement standards'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangement standards'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangement standards'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangement standards'	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangement standards'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119' (2011)	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	30 June 2014

1. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONT)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2012-3 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	1 January 2013	30 June 2014
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'	1 January 2013	30 June 2014

These Australian Accounting Standards and Interpretations (and IFRSs and IFRIC Interpretations) are in issue but are not effective for the current year end. The reported results and position of the Group will not change on adoption of these pronouncements as they do not result in any changes to the Group's existing accounting policies. Adoption will, however, result in changes to information currently disclosed in the financial statements. The Group does not intend to adopt any of these pronouncements before their effective dates.

At the date of authorisation of the financial statements, there were no IASB Standards and IFRIC Interpretations that were in issue but not yet effective and no equivalent pronouncement issued by AASB.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001 (Cth), Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Company and its subsidiaries (the "Group"). For the purposes of preparing the consolidated financial statements, the Company is a for profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with the Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 19 September 2013.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for financial instruments that are measured at fair values as explained in the accounting policies below. 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.

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

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

a. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

b. Business combinations

Acquisitions of business are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group and liabilities incurred by the Group to the former owners of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:
(i) deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively.

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

c. Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business (see note 2(b) above) less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating unit that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent period.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

d. Interests in jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method of accounting. Under the equity method, investments are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entity, less any impairment in the value of the individual investments.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

e. Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian Dollars ($), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rate prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (note 2(q)).
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in a foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, 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, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised through other comprehensive income and recognised in equity.

On the disposal of the foreign operation (ie 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.

f. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

The stage of completion of the contract is determined progressively at contractual rates as service hours are delivered and direct expenses incurred.

Rental income

Rental income from operating leases is recognised in accordance with the Group's accounting policy outlined in note 2(g).

Dividend and interest income

Dividend income from investments is recognised when the Group's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding at the effective interest rate applicable.

g. Leasing

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

Group as lessor

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

Group as lessee

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

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Refer to note 2(h).

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

h. Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

i. Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

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.

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

j. Share based payments

Equity settled share based payments to employees and others providing similar services are measured at fair value of the equity instrument at grant date. Details regarding the determination of fair value of equity settled share based transactions are set out in note 27.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

The fair value determined at the grant date of the equity settled share based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with corresponding adjustment to the employee equity settled benefits reserve.

k. Income Tax

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

Current Tax

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

Deferred Tax

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period(s) in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax for the period

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for business combination.

l. Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

m. Property, plant and equipment

Leasehold buildings and improvements, plant and equipment and equipment under finance lease are stated at cost less, where applicable, accumulated depreciation and impairment losses. Construction in progress is stated at cost. Cost includes expenditure that is directly attributed to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

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 following rates are used in the calculation of depreciation:

Leasehold buildings and improvements	2.38% – 50% straight line
Vessels	4% straight line / 4% diminishing value
Vessel refits	20% straight line / 10% diminishing value
Plant and equipment	1% – 100% straight line

n. Impairment of tangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

o. Financial assets

All financial assets are initially measured at fair value.

Financial assets are classified into the following specified category: loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. They are recorded at amortised cost less impairment.

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

p. Financial liabilities and equity instruments issued by the Group

All financial liabilities are initially measured at fair value.

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

Equity instrument
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 cost.

Financial guarantee contract liabilities
Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

(i) the amount of the obligation under the contract, as determined under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'; and
(ii) the amount initially recognised less, where appropriate, cumulative amortisation in accordance with the revenue recognition policies described in note 2(f).

Financial liabilities
Financial liabilities are classified as other financial liabilities.

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

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the profit and loss.

q. Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate and interest rate risk. Further details of derivative financial instruments are disclosed in note 33 to the financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit and loss immediately unless the derivative is designated and effective as a hedging instrument in which event, the timing of the recognition in profit and loss depends on the nature of the hedge relationship.

Hedge accounting
Hedges of foreign exchange risk on firm commitments and interest rate risk are accounted for as cash flow hedges.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item. Note 33 contains details of the fair values of the derivative instruments used for hedging purposes.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the "other gains and losses" line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Notes to the Financial Statements for the Year Ended 30 June 2013

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

r. Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at 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.

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

s. Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
(ii) for receivables and payables which are recognised inclusive of GST.

The gross amount of GST recoverable from, and payable to, the taxation authority are included as part of receivables and payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as investing and operating cash flows respectively.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2, 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.

3.1 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.

Useful lives of property, plant and equipment

As described in note 2(m), 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.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. At the end of the reporting period, the Directors have determined that there was no adjustment required to the Group's carrying amount of goodwill.

They carrying amount of goodwill at 30 June 2013 was $20.7 million (2012: $20.7 million). No impairment was recognised during the year. Details of goodwill are set out in note 15.

4. SEGMENT INFORMATION

4.1 Products and services from which reportable segments derive their revenues

Information reported to the chief operating decision maker (The Board of Directors) for the purposes of resource allocation and assessment of segment performance focuses on the types of services provided. The Group's reportable segments under AASB 8 are therefore as follows:

- Vessels
- 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.

4.2 Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

	Revenue from external customers		Inter-segment revenue		Total segment revenue	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Segment revenues						
Vessels	283,718	275,483	–	1	283,718	275,484
Supply Base	148,341	89,743	1,966	2,824	150,307	92,567
Slipway	17,431	15,132	7,463	9,692	24,894	24,824
Total	449,490	380,358	9,429	12,517	458,919	392,875
Eliminations					(9,429)	(12,517)
Total consolidated revenue					**449,490**	**380,358**

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

	2013 $'000	2012 $'000
Segment profit		
Vessels	44,469	52,518
Supply Base	52,275	36,729
Slipway	3,479	2,061
Eliminations	(244)	458
Total for continuing operations	99,979	91,766
Investment revenue	1,261	1,962
Other losses	(163)	(345)
Central administration costs	(11,427)	(12,013)
Share of profit of jointly controlled entity	3,893	362
Unallocated finance costs	(9,788)	(10,130)
Profit before income tax	**83,755**	**71,602**

Segment profit represents the profit earned by each segment without allocation of investment revenue, other gains and losses, central administration costs, share of profits of jointly controlled entity, 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.

Notes to the Financial Statements for the Year Ended 30 June 2013

4. SEGMENT INFORMATION (CONT)

4.3 Segment assets

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

	2013 $'000	2012 $'000
Segment assets		
Vessels	397,881	313,995
Supply Base	186,245	163,295
Slipway	16,263	13,723
Unallocated	74,088	66,872
Total	**674,477**	**557,885**

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

4.4 Other segment information

	Depreciation and amortisation		Additions to non-current assets		Carrying value of equity accounted investments	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Vessels	23,760	20,519	74,682	49,850	–	–
Supply Base	12,053	4,970	16,553	32,662	–	–
Slipway	692	607	2,502	607	–	–
Unallocated	1,004	744	1,901	970	8,915	5,022
Total	**37,509**	**26,840**	**95,638**	**84,089**	**8,915**	**5,022**

4.5 Revenue from major services

The following is an analysis of the Group's revenue from its major services:

	2013 $'000	2012 $'000
Vessel services	283,095	273,994
Property and equipment rental	66,508	39,613
Supply Base services	81,769	50,035
Slipway services	17,432	15,131
Others	686	1,585
Total	**449,490**	**380,358**

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4. SEGMENT INFORMATION (CONT)

4.6 Geographical information

The Group is based in two principal geographical areas – Australia (country of domicile) and Singapore.

During the year the Group operated vessels in a number of countries outside of Australia. The Group's revenue from continuing operations 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*	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Australia	435,602	367,350	409,195	349,579
Other	13,888	13,008	59,710	48,810
Total	**449,490**	**380,358**	**468,905**	**398,389**

* Non-current assets excluding investments accounted for using the equity method and other financial assets.

4.7 Information about major customers

Included in revenues arising from vessel and supply base services are revenues of approximately $194.6 million (2012: $142.2 million) which arose from sales to the Group's largest customer and revenues of approximately $55.1 million (2012: $45.5 million) which arose from sales to the Group's second largest customer.

5. PROFIT FROM OPERATIONS

	2013 $'000	2012 $'000
(a) Revenue from continuing operations consisted of the following items:		
Rendering of services	382,982	340,745
Rental revenue	66,508	39,613
	449,490	**380,358**
(b) Other losses		
Net foreign exchange losses	(180)	(197)
Gain/(loss) on disposal of:		
Property, plant and equipment	17	(148)
	(163)	**(345)**
(c) Finance costs		
Interest expense – bank loans	8,746	7,979
Finance charges – lease finance charges	1,042	2,151
	9,788	**10,130**
(d) Profit for the year		
Profit for the year before income tax has been arrived at after charging the following:		
(i) Depreciation		
Leasehold buildings and improvements	10,152	3,969
Vessels	21,970	18,469
Vessels – hire purchase	1,574	1,911
Plant and equipment	3,038	1,807
Plant and equipment – hire purchase	775	684
	37,509	**26,840**
(ii) Impairment losses		
Impairment loss recognised on trade receivables	31	92
Reversal of impairment losses recognised on trade receivables	(69)	(139)
(iii) Employee benefits		
Post employment benefits:		
Defined contribution plans	7,185	5,873
Share based payments:		
Equity settled share based payments	1,984	2,123
Other employee benefits	166,761	141,405
	175,930	**149,401**

6. EARNINGS PER SHARE

	2013 Cents per Share	2012 Cents per Share
Basic earnings per share	26.89	23.44
Diluted earnings per share	26.47	22.93

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:

	2013 $'000	2012 $'000
Net Profit	60,298	51,036

	2013 No.'000	2012 No.'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	224,229	217,717

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:

	2013 $'000	2012 $'000
Net Profit	60,298	51,036

	2013 No.'000	2012 No.'000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	224,229	217,717
Shares deemed to be issued for no consideration in respect of:		
Employee options and rights	3,568	4,859
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	227,797	222,576

The following potential ordinary shares are non-dilutive and are therefore excluded from the weighted average number of ordinary shares used in the calculation of diluted earnings per share.

	2013 No.'000	2012 No.'000
Employee options	–	–

7. INCOME TAXES

(a) Income tax recognised in profit or loss

Tax expense comprises:	2013 $'000	2012 $'000
Current tax expense in respect of the current year	22,810	14,088
Deferred tax expense in respect of the current year	399	6,471
Adjustment recognised in the current year in relation to the current tax of prior years	248	7
Total tax expense	**23,457**	**20,566**
The income tax expense for the year can be reconciled to accounting profit as follows:		
Profit from operations	**83,755**	**71,602**
Income tax expense calculated at 30%	25,126	21,480
Effect of revenue that is exempt from taxation	(1,156)	(624)
Effect of expenses that are not deductible in determining taxable profit	64	456
Effect of tax deductible items not included in accounting profit	(559)	(564)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(266)	(189)
	23,209	20,559
Adjustment recognised in the current year in relation to the current tax of prior years	248	7
	23,457	**20,566**

The Group was subject to taxes in a number of jurisdictions and the tax rates payable under these are:

	2013 %	2012 %
Australia	30	30
Singapore	17	17
Mexico	30	30
Brunei	–	20
Indonesia (withholding tax on revenue)	2.64	–
Thailand	20	–
Malaysia	25	–

	2013 $'000	2012 $'000
(b) Income tax recognised directly in equity		
Employee share trust	(1,622)	(1,718)
	(1,622)	**(1,718)**
(c) Current tax liabilities		
Income tax payable	(8,912)	(7,426)
	(8,912)	**(7,426)**
(d) Deferred tax balances		
Deferred tax assets	9,234	7,199
Deferred tax liabilities	(22,252)	(21,439)
	(13,018)	**(14,240)**

7. INCOME TAXES (CONT)

Deferred tax assets/(liabilities) arise from the following:

	Opening balance	Recognised in profit or loss	Recognised in equity	Acquisitions	Closing balance
	$'000	$'000	$'000	$'000	$'000
2013					
Gross deferred tax liabilities:					
Property, plant and equipment	(19,931)	(554)	–	–	(20,485)
Inventory	(391)	(297)	–	–	(688)
Receivables	(949)	237	–	–	(712)
Other	(168)	(198)	–	–	(366)
	(21,439)	(812)	–	–	(22,252)
Gross deferred tax assets:					
Provisions	2,232	917	–	–	3,149
Share issue costs	218	(73)	–	–	145
Employee share trust	2,639	(2,011)	1,622	–	2,250
Unearned revenue	1,896	1,474	–	–	3,370
Other	214	106	–	–	320
	7,199	413	1,622	–	9,234
	(14,240)	**(399)**	**1,622**	**–**	**(13,018)**
2012					
Gross deferred tax liabilities:					
Property, plant and equipment	(15,348)	(4,063)	–	(520)	(19,931)
Inventory	(560)	169	–	–	(391)
Receivables	(53)	(896)	–	–	(949)
Other	(37)	(130)	–	–	(168)
	(15,998)	(4,920)	–	(520)	(21,439)
Gross deferred tax assets:					
Provisions	1,663	569	–	–	2,232
Share issue costs	384	(166)	–	–	218
Employee share trust	–	921	1,718	–	2,639
Unearned revenue	3,891	(1,995)	–	–	1,896
Unused tax losses	978	(978)	–	–	–
Other	116	98	–	–	214
	7,032	(1,551)	1,718	–	7,199
	(8,966)	**(6,471)**	**1,718**	**(520)**	**(14,240)**

7. INCOME TAXES (CONT)

(e) Tax consolidation

Relevance of tax consolidation to the Group

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Mermaid Marine Australia Ltd. The members of the tax consolidated group are identified at note 31.

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Mermaid Marine Australia Ltd and each of the entities in the tax consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

The tax sharing agreement entered into between members of the tax consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if any entity should leave the tax consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

8. DIVIDENDS PROVIDED FOR OR PAID

	2013 $'000	2012 $'000
Adjusted franking account balance	32,483	22,913
Impact on franking account balance of dividends not recognised	(6,899)	(5,643)

	2013		2012	
	Cents Per Share	Total $'000	Cents Per Share	Total $'000
Recognised amounts				
Fully paid ordinary shares				
Interim dividend:				
Fully franked at a 30% tax rate	5.5	12,467	5.0	10,901
Final dividend:				
Fully franked at a 30% tax rate	6.0	13,297	5.0	10,774
Unrecognised amounts				
Fully paid ordinary shares				
Final dividend:				
Fully franked at a 30% tax rate	7.0	16,097	6.0	13,167

On 21 August 2013, the Directors declared a fully franked final dividend of 7.0 cents per share in respect of the financial year ended 30 June 2013 to the holders of fully paid ordinary shares, to be paid on 27 September 2013. The dividend will be paid to all shareholders on the register of members on 6 September 2013. This dividend has not been included as a liability in these financial statements.

9. TRADE AND OTHER RECEIVABLES

	2013 $'000	2012 $'000
Trade receivables	116,300	79,827
Allowance for doubtful debts	(59)	(106)
Other receivables	4,487	2,270
Goods and services tax recoverable	1,503	1,450
	122,231	**83,441**

The average credit period on rendering of services is 30 days. An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past rendering of services, determined by reference to past default experience. The Group has provided for certain receivables over 150 days because historical experience is such that receivables that are past due beyond 150 days are generally not recoverable. Trade receivables between 120 days and 150 days are provided for based on estimated irrecoverable amount from the rendering of services, determined by reference to past default experience.

Of the trade receivables balance at the end of the year, $62.5 million (30 June 2012: $33.8 million) is outstanding from the Group's largest debtor and $13.5 million (30 June 2012: $12.8 million) from the Group's second largest debtor.

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of past due but not impaired

	2013 $'000	2012 $'000
31-60 days	40,054	24,103
61-90 days	19,181	4,409
91-120 days	300	1,789
121-150 days	296	3,278
Over 150 days	653	3
Total	**60,484**	**33,582**

Movement in the allowance for doubtful debts

	2013	2012
Balance at the beginning of the year	106	171
Impairment losses recognised on receivables	31	92
Amounts written off as uncollectible	(10)	(18)
Amounts recovered during the year	(69)	(139)
Balance at the end of the year	**59**	**106**

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

10. INVENTORIES

	2013 $'000	2012 $'000
Fuel – at cost	1,974	1,426
Consumables	320	–
Work in progress	160	129
	2,454	**1,555**

11. OTHER CURRENT ASSETS

	2013	2012
Prepayments	**9,118**	**12,195**

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Name of entity	Principal activity	Country of incorporation	Ownership interest 2013 %	Ownership interest 2012 %	Consolidated carrying amount 2013 $'000	Consolidated carrying amount 2012 $'000
Jointly controlled entity						
Toll Mermaid Logistics Broome Pty Ltd	Supply base services in Broome for the offshore oil and gas industry	Australia	50	50	8,915	5,022
Total					**8,915**	**5,022**

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

Summarised financial information in respect of the Group's jointly controlled entity is set out below:

	2013 $'000	2012 $'000
Financial position:		
Total assets	27,625	15,082
Total liabilities	(9,795)	(5,039)
Net assets	17,830	10,043
Group's share of jointly controlled entity net assets	8,915	5,022
Financial performance:		
Total revenue	48,042	12,925
Total profit before tax for the year	11,124	1,034
Group's share of jointly controlled entity profit before tax	5,562	517
Group's share of jointly controlled entity income tax expense	(1,669)	(155)
Group's share of jointly controlled entity profit	**3,893**	**362**

Contingent liabilities and capital commitments

The Company's share of the contingent liabilities, capital commitments and other expenditure commitments of the jointly controlled entity is nil (2012: nil).

13. OTHER FINANCIAL ASSETS

	2013 $'000	2012 $'000
Current		
Derivatives		
Interest rate swaps	(121)	–
Foreign currency forward contracts	2,151	–
	2,030	**–**
Non-current		
Loans and receivables		
Loans to jointly controlled entity (i)	2,000	2,000
	2,000	**2,000**

(i) The Group has provided a jointly controlled entity with a loan at rates comparable to the average commercial rate of interest.

14. PROPERTY, PLANT AND 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	7,284	49,815	157	1,675	488	59,419
Acquisitions through business combinations	3,611	–	–	349	–	3,960
Disposals	–	(130)	–	(260)	(110)	(500)
Transfers	–	36,132	(36,129)	(3)	–	–
Net currency exchange differences	–	7,202	–	3	–	7,205
Balance at 1 July 2012	118,345	296,876	26,289	17,195	9,388	468,093
Additions	15,069	74,673	–	5,043	853	95,638
Disposals	(11)	(5,160)	(492)	(35)	–	(5,698)
Transfers	–	7,599	(7,599)	–	–	–
Net currency exchange differences	–	14,341	–	20	–	14,361
Balance at 30 June 2013	**133,403**	**388,329**	**18,198**	**22,223**	**10,241**	**572,394**

14. PROPERTY, PLANT AND EQUIPMENT (CONT)

	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
Accumulated depreciation:						
Balance at 1 July 2011	(13,899)	(31,618)	(12,291)	(3,983)	(1,534)	(63,325)
Disposals	–	–	–	196	56	252
Transfers	–	(9,280)	9,279	1	–	–
Depreciation expense	(3,969)	(18,469)	(1,911)	(1,807)	(684)	(26,840)
Depreciation capitalised in assets	–	–	–	–	(4)	(4)
Net currency exchange differences	–	(495)	–	(2)	–	(497)
Balance at 1 July 2012	(17,868)	(59,862)	(4,923)	(5,595)	(2,166)	(90,414)
Disposals	10	5,158	492	31	–	5,691
Transfers	–	(1,184)	1,184	–	–	–
Depreciation expense	(10,152)	(21,970)	(1,574)	(3,038)	(775)	(37,509)
Net currency exchange differences	–	(1,961)	–	(6)	–	(1,967)
Balance at 30 June 2013	**(28,010)**	**(79,819)**	**(4,821)**	**(8,608)**	**(2,941)**	**(124,199)**
Net book value:						
As at 30 June 2012	100,477	237,014	21,366	11,600	7,222	377,679
As at 30 June 2013	**105,393**	**308,510**	**13,377**	**13,615**	**7,300**	**448,195**

Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in note 18 to the financial statements, all non-current assets of the Group have been pledged as security, except deferred tax assets.

15. GOODWILL

	2013 $'000	2012 $'000
Cost	20,710	20,710
Accumulated impairment losses	–	–
	20,710	**20,710**
Cost		
Balance at beginning of year	20,710	–
Amount recognised from business combination occurring during the year	–	20,710
Balance at end of year	**20,710**	**20,710**

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to the Supply Base cash-generating unit.

The recoverable amount of this cash-generating unit is determined based on a value in use calculation, which uses cash flow projections based on financial budgets approved by the Directors covering a five year period, and a discount rate of 11.50% per annum (2012: 12.00% per annum).

Cash flow projections during the budget period are based on management's best estimates of cash flows and known contractual arrangements. The cash flows beyond that five year period have been extrapolated using a 0% per annum growth rate. The Directors believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

16. TRADE AND OTHER PAYABLES

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.

	2013 $'000	2012 $'000
Trade payables	8,544	10,204
Other payables and accruals	34,820	28,523
Goods and services tax payable	4,965	2,887
	48,329	**41,614**

17. UNEARNED REVENUE

Current	11,274	4,023
Non-current	–	2,748
	11,274	**6,771**

Unearned revenue represents revenue received in advance to be recognised over the life of the service contract.

18. BORROWINGS

Secured – at amortised cost

	2013 $'000	2012 $'000
Current		
Hire purchase liability (i)	7,796	6,392
Bank loans (ii)	21,400	15,370
	29,196	**21,762**
Non-current		
Hire purchase liability (i)	5,443	12,350
Bank loans (ii)	145,000	124,013
	150,443	**136,363**

Summary of borrowing arrangements:

(i) Secured by hire purchase assets, the borrowings are fixed interest rate debt with repayment periods not exceeding 5 years. The current weighted average effective interest rate on the hire purchase liabilities is 7.10% (2012: 7.45%). – refer note 33.

(ii) Prior to August 2011, the Company held a number of individual bank loans which were secured by mortgage debentures over the assets and undertakings of certain controlled entities, registered ships mortgages over the vessels owned by certain controlled entities and a registered mortgage by way of sub-demise of the Dampier Supply Base lease. The loans were variable interest rate debt with repayment periods up to 9 years.

In August 2011, the bank loans held with NAB were consolidated into a single Loan Facility Agreement for a term of 5 years. In April 2012 the Company entered into a separate Loan Facility Agreement with ANZ, also with a term of 5 years. The new Loan Facilities continue to be fully secured by fixed and floating charges given by certain controlled entities within the Group, registered ship mortgages over a number of vessels owned by certain controlled entities, real property mortgages, and a mortgage by way of sub-demise over the Dampier Supply Base lease. The assets secured under these Loan Facilities were consolidated under a Club structure whereby the assets are mortgaged by a security trustee who holds these mortgages on trust for the creditor beneficiaries, NAB and ANZ. The current weighted average effective interest rate on the bank loans is 5.48% (2012: 6.24%). – refer note 33.

19. OTHER FINANCIAL LIABILITIES

	2013 $'000	2012 $'000
Derivatives		
Foreign currency forward contracts	–	73
Interest rate swaps	–	692
	–	**765**

20. PROVISIONS

Current		
Employee benefits – annual leave	**8,293**	**5,961**
Non-current		
Employee benefits – long service leave	**1,986**	**1,204**

The current provision represents annual leave entitlements accrued and the non-current provision represents vested long service leave entitlements accrued.

21. ISSUED CAPITAL

	2013 $'000	2012 $'000
229,962,314 fully paid ordinary shares (2012: 219,453,350)	**226,382**	**197,694**

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2013 No.'000	2013 $'000	2012 No.'000	2012 $'000
Fully paid ordinary shares				
Balance at beginning of financial year	219,453	197,694	215,377	186,416
Issue of shares under employee option plans (note 27)	7,506	16,102	1,217	2,208
Issue of shares under dividend reinvestment plan	3,003	10,044	2,859	8,660
Transfer from employee equity settled benefits reserve	–	2,542	–	410
Balance at end of financial year	**229,962**	**226,382**	**219,453**	**197,694**

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

Share options and rights

As at 30 June 2013, executives and employees held options and rights over 4,775,681 ordinary shares (2012: 11,622,754) in aggregate. Please refer to note 27.5 for details of these options and rights.

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

22. RESERVES

	2013 $'000	2012 $'000
Employee equity settled benefits	6,660	5,596
Hedging	2,030	(765)
Foreign currency translation	(6,410)	(20,576)
Balance at end of financial year	**2,280**	**(15,745)**

Employee equity settled benefits reserve		
Balance at beginning of financial year	5,596	2,165
Share based payment	1,984	2,123
Transfer to share capital	(2,542)	(410)
Deferred income tax benefit	1,622	1,718
Balance at end of financial year	**6,660**	**5,596**

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

	2013 $'000	2012 $'000
Hedging reserve		
Balance at beginning of financial year	(765)	(1,612)
Gain/(loss) on cash flow hedges	1,822	(921)
Transfer of cash flow hedge loss to initial carrying amount of fixed asset	973	1,768
Balance at end of financial year	**2,030**	**(765)**

The hedging reserve represents hedging gains or losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in 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 fixed asset, consistent with the applicable accounting policy.

	2013 $'000	2012 $'000
Foreign currency translation reserve		
Balance at beginning of financial year	(20,576)	(27,712)
Translation of foreign operations	14,166	7,136
Balance at end of financial year	**(6,410)**	**(20,576)**

Exchange differences relating to the translation from the functional currencies of the Group's foreign controlled entities into Australian Dollars are brought to account by entries made directly to the foreign currency translation reserve.

23. RETAINED EARNINGS

	2013 $'000	2012 $'000
Balance at beginning of financial year	139,830	110,469
Profit attributable to owners of the Company	60,298	51,036
Dividend provided for or paid	(25,764)	(21,675)
Balance at end of financial year	**174,364**	**139,830**

24. NOTES TO THE STATEMENT OF CASH FLOW

(a) 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 and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the balance sheet as follows:

	2013 $'000	2012 $'000
Cash and cash equivalents	**58,824**	**55,283**

(b) Non cash financing and investing activities

During the financial year, the Group acquired property, plant and equipment with an aggregate value of $1.1 million (2012: $0.5 million), which was financed by bank finance and hire purchase agreements. These acquisitions will be reflected in the statement of cash flow as repayment of borrowings over the term of the facilities.

In addition, the Company issued shares to the value of $10.0 million (2012: $8.7 million) under the Dividend Reinvestment Plan.

(c) Reconciliation of profit for the year to net cash flows from operating activities

	2013 $'000	2012 $'000
Profit for the year	60,298	51,036
Depreciation of non-current assets	37,509	26,840
Gain/(loss) on sale of property, plant and equipment	(17)	148
Unrealised foreign exchange loss	87	254
Allowance for doubtful debts	21	74
Bad debts	10	18
Reversal of impairment losses on trade receivables	(69)	(139)
Equity settled share based payment	1,984	2,123
Share of jointly controlled entity profit	(3,893)	(362)
Change in net assets and liabilities:		
Current trade and other receivables	(38,569)	(18,312)
Prepayments	(8)	(628)
Inventories	(894)	598
Provisions	3,106	1,964
Trade and other payables	4,875	18,694
Unearned revenue	4,503	(6,199)
Increase in deferred tax liabilities	493	7,395
Increase/(decrease) in current tax liability	1,399	(3,910)
Net cash flows from operating activities	**70,835**	**79,594**

24. NOTES TO THE STATEMENT OF CASH FLOW (CONT)

(d) Financing facilities

	2013 $'000	2012 $'000
Secured loan facilities with various maturity dates through to 2017 and which may be extended by mutual agreement:		
– Amount used	166,400	139,383
– Amount unused	16,000	14,917
	182,400	**154,300**
Secured bank overdraft:		
– Amount used	–	–
– Amount unused	4,000	4,000
	4,000	**4,000**

25. COMMITMENTS FOR EXPENDITURE

(a) Lease commitments

Hire purchase liabilities and non-cancellable operating lease commitments are disclosed in note 26 to the financial statements.

(b) Capital expenditure commitments

	2013 $'000	2012 $'000
Plant and equipment	3,866	666
Leasehold improvements	3,727	367
Vessels	28,751	30,772
	36,344	**31,805**

26. LEASES

(a) Hire purchase contracts (accounted for as finance leases)

	Minimum lease payments		Present value of minimum lease payments	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Not later than 1 year	8,514	7,406	7,796	6,392
Later than 1 year and not later than 5 years	5,857	13,393	5,443	12,350
Later than 5 years	–	–	–	–
Minimum future payments	14,371	20,799	13,239	18,742
Less future finance charges	(1,132)	(2,057)	–	–
Present value of minimum lease payments	**13,239**	**18,742**	**13,239**	**18,742**
Included in the financial statements as:				
Borrowings – current (note 18)			7,796	6,392
Borrowings – non-current (note 18)			5,443	12,350
			13,239	**18,742**

Finance leases relate to vessels and equipment with lease terms of up to 4 years. The Group has options to purchase the equipment for a nominated amount at the conclusion of the lease agreements.

26. LEASES (CONT)

(b) Operating leases

	2013 $'000	2012 $'000
Payments recognised as an expense		
Minimum lease payment	67,634	44,535
Non-cancellable operating leases committed		
Not later than 1 year	26,037	39,323
Later than 1 year and not later than 5 years	9,779	20,256
Later than 5 years	5,845	5,901
Aggregate lease expenditure contracted for at balance date	**41,661**	**65,480**
Aggregate operating lease commitments comprise:		
Office rental commitments (i)	2,513	3,832
Supply Base rental commitments (ii)	16,142	16,313
Vessel charter fee commitments (iii)	19,232	42,948
Other (iv)	3,774	2,387
	41,661	**65,480**

(i) Office rental commitments:

The Company entered into a lease for head office premises at 1 Mews Road, Fremantle commencing on 5 August 2010. The Company is committed under a 5 year arrangement, with a 5 year option term commencing 5 August 2015. The current rental amount of $905,878 per annum is subject to an annual 3.5% increase for the first four years of the lease and a market review on the fifth anniversary of the lease.

(ii) Supply Base rental commitments:

Supply Base rental commitments represents the lease of the Dampier Supply Base for a term of 21 years commencing 1 January 1999 with an option to renew the lease for a further period of 21 years. The rental commitment increased during the year following a market rent review in accordance with the terms of the lease agreement.

The approved use of the site is for the purpose of conducting a multi-purpose marine service facility and supply base including but not limited to open and covered laydown and storage, warehousing, production and storage of drilling mud and other drilling supplies, operating and maintaining vessels and floating plant together with associated docking, maintenance and engineering works. Any other uses require the prior written consent of the Lessor.

Restrictions apply to the assignment or subletting of the site (or any part) without prior consent of the Lessor, although that consent cannot unreasonably be withheld (subject to "usual" prudential requirements common to leases in Western Australia).

Supply Base rental commitments also include lease payments on the lease of a further parcel of land adjacent to the existing Dampier Supply Base, which the Company acquired in December 2011 with a remaining term of 7.4 years at the date of acquisition, to provide additional supply base services to a range of clients.

(iii) Vessel charter commitments

As of 30 June 2013, the Company had 8 vessels under bare boat agreements. Vessel charter commitments represent charter fee payments to be made to the owners of these vessels. These leases are all on commercial terms for periods between 1 and 2 years.

(iv) Other lease commitments:

The Group has leases over a number of commercial and residential properties and various items of machinery and equipment. These leases are all on commercial terms for periods between 1 and 5 years.

26. LEASES (CONT)

(c) The Group as lessor

The Group has entered into sub lease agreements and equipment rental agreements at the Dampier Supply Base for periods between 1.5 years to 5 years with options to extend.

	2013 $'000	2012 $'000
Non-cancellable operating lease receivables		
Not later than 1 year	28,056	26,181
Later than 1 year and not later than 5 years	685	17,216
Later than 5 years	–	–
	28,741	**43,397**

27. SHARE BASED PAYMENTS

27.1 Share option and rights incentive plans

The Group has established ownership based compensation plans whereby executives and employees of the Group have been issued with options and rights over ordinary shares of Mermaid Marine Australia Limited.

Upon exercise, each share option or right, converts into one ordinary share of Mermaid Marine Australia Ltd. No amounts are paid or are payable by the recipient on receipt of the options or rights. The options or rights carry no rights to dividends and no voting rights. Holders of options or rights do not have the right, by virtue of the option or right, to participate in any share issue of the Company. The options and rights may be exercised at any time from their vesting date to the date of their expiry.

The options or rights are not quoted on the ASX.

The following share based payment arrangements were in existence during the current and comparative reporting periods:

Series	Number issued	Grant date	Expiry date	Exercise price $	Fair value at grant date $
(1) Issued 22 November 2007 (a)	970,040	22 Nov 2007	11 Oct 2012	1.83	0.39
(2) Issued 23 October 2007 (b)	2,576,788	23 Oct 2007	11 Oct 2012	1.83	0.45
(3) Issued 24 January 2008 (b)	487,714	24 Jan 2008	24 Jan 2013	1.83	0.45
(4) Issued 23 September 2008 (c)	1,385,432	23 Sep 2008	23 Sep 2013	1.60	0.26
(5) Issued 27 November 2008 (d)	1,277,584	27 Nov 2008	23 Sep 2013	1.60	0.08
(6) Issued 22 September 2009 (e)	475,705	22 Sep 2009	18 Sep 2014	0.00	1.43
(7) Issued 22 September 2009 (f)	3,112,047	22 Sep 2009	18 Sep 2014	3.05	0.46
(8) Issued 1 December 2009 (g)	1,488,356	1 Dec 2009	18 Sep 2014	3.05	0.47
(9) Issued 20 October 2010 (h)	780,082	20 Oct 2010	1 Jul 2013	0.00	1.62
(10) Issued 25 November 2010 (h)	266,351	25 Nov 2010	1 Jul 2013	0.00	1.62
(11) Issued 18 October 2011 (i)	848,863	18 Oct 2011	1 Jul 2014	0.00	2.06
(12) Issued 18 October 2011 (i)	324,650	18 Oct 2011	1 Jul 2014	0.00	1.89
(13) Issued 24 November 2011 (i)	331,142	24 Nov 2011	1 Jul 2014	0.00	1.69
(14) Issued 25 October 2012 (j)	311,634	25 Oct 2012	1 Jul 2015	0.00	2.28
(15) Issued 25 October 2012 (j)	283,254	25 Oct 2012	1 Jul 2015	0.00	2.42
(16) Issued 22 November 2012 (j)	317,865	22 Nov 2012	1 Jul 2015	0.00	2.47
(17) Issued 20 December 2012 (j)	20,981	20 Dec 2012	1 Jul 2015	0.00	2.42

Notes to the Financial Statements for the Year Ended 30 June 2013

27. SHARE BASED PAYMENTS (CONT)

(a) In accordance with the terms of the Managing Director's Share Option Plan – October 2007, 970,040 share options vested on 11 October 2010 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 11 October 2007 and ending on 11 October 2010 and a maximum period of five years commencing on 11 October 2007 and ending on 11 October 2012. These options were all exercised on 4 September 2012.

(b) 15% of the options issued on 23 October 2007 and 24 January 2008 vested 36 months after their issue date. The remaining 85% may be exercised subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years from issue date and a maximum period of five years from issue date. This performance hurdle has been met.

(c) In accordance with the terms of the Senior Executive Share Option Plans, 1,385,432 share options vested on 23 September 2011 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 23 September 2008 and ending on 23 September 2011 and a maximum period of five years commencing on 23 September 2008 and ending on 23 September 2013. This performance hurdle has been met.

(d) In accordance with the terms of the Managing Director's Share Option Plan – 2008, 1,277,584 share options vested on 23 September 2011 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 23 September 2008 and ending on 23 September 2011 and a maximum period of five years commencing on 23 September 2008 and ending on 23 September 2013. These options were all exercised on 28 June 2013.

(e) In accordance with the terms of the Mermaid Marine Share Option Plan (amended September 2009), the share options issued to employees vested on 18 September 2012 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 18 September 2009 and ending on 18 September 2012 and a maximum period of five years commencing on 18 September 2009 and ending on 18 September 2014. This performance hurdle has been met.

(f) In accordance with the terms of the Senior Executive Share Option Plans (amended September 2009), 3,112,047 share options vested on 18 September 2012 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 18 September 2009 and ending on 18 September 2012 and a maximum period of five years commencing on 18 September 2009 and ending on 18 September 2014. This performance hurdle has been met.

(g) In accordance with the terms of the Managing Director's Share Option Plan – 2009, 1,488,356 share options vested on 18 September 2012 subject to the performance hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries index over a minimum period of three years commencing on 18 September 2009 and ending on 18 September 2012 and a maximum period of five years commencing on 18 September 2009 and ending on 18 September 2014. These options were all exercised on 1 March 2013.

(h) In accordance with the terms of the Mermaid Marine Australia Limited Performance Rights Plan – 2010 and the Mermaid Marine Australia Limited Managing Director's Performance Rights Plan – 2010 (as approved by the shareholders at the Company's AGM on 25 November 2010), the number of performance rights which vest following the end of the Performance Period will depend on the growth in the Earnings Per Share of the Company and the Total Shareholder Return relative to a selected peer group of companies in accordance with the table below. All of the relevant performance criteria over the specified performance period have been satisfied.

27. SHARE BASED PAYMENTS (CONT)

Performance criteria	Performance period	Percentage of LTI subject to performance criteria	Performance criteria targets	Percentage of performance rights which vest if target met
Normalised Earnings Per Share (EPS) growth	Beginning 1 July 2010 and ending 30 June 2013	20%	Below 6%	Nil
			Between 6% and 10%	50% to 100% (on a straight line basis)
			Above 10%	100%
Company's Total Shareholder Return (TSR) percentile ranking over the Performance Period relative to a selected Peer Group	Beginning 1 July 2010 and ending 30 June 2013	80%	Below the 50th percentile	Nil
			Between the 50th percentile and the 75th percentile	50% to 100% (on a straight line basis)
			Above the 75th percentile	100%

(i) In accordance with the terms of the Mermaid Marine Australia Limited Performance Rights Plan – 2011 and the Mermaid Marine Australia Limited Managing Director's Performance Rights Plan – 2011 (as approved by the shareholders at the Company's AGM on 24 November 2011), the number of performance rights which vest to the Managing Director, Chief Operating Officer and Chief Financial Officer following the end of the Performance Period will depend on the growth in the Earnings Per Share of the Company and the Total Shareholder Return relative to a selected peer group of companies in accordance with the table below:

Performance criteria	Performance period	Percentage of LTI subject to performance criteria	Performance criteria targets	Percentage of performance rights which vest if target met
Normalised Earnings Per Share (EPS) growth	Beginning 1 July 2011 and ending 30 June 2014	25%	Less than 6%	Nil
			Equal to 6%	50%
			Between 6% and 12.5%	50% to 100% (pro-rata)
			Equal to 12.5%	100%
Company's Total Shareholder Return (TSR) percentile ranking over the Performance Period relative to a selected Peer Group	Beginning 1 July 2011 and ending 30 June 2014	75%	Below the 50th percentile	Nil
			At the 50th percentile	50%
			Between the 50th percentile and the 90th percentile	50% to 100%(pro-rata)
			At the 90th percentile	100%

27. SHARE BASED PAYMENTS (CONT)

The table below sets out the relevant Performance Criteria for the performance rights granted to other senior management (ie. excluding the Managing Director, Chief Operating Officer and Chief Financial Officer) during the financial year:

Performance criteria	Performance period	Percentage of LTI subject to performance criteria	Performance criteria targets	Percentage of performance rights which vest if target met
Normalised Earnings Per Share (EPS) growth	Beginning 1 July 2011 and ending 30 June 2014	25%	Below 6%	Nil
			Between 6% and 10%	50% to 100% (on a straight line basis)
			Above 10%	100%
Company's Total Shareholder Return (TSR) percentile ranking over the Performance Period relative to a selected Peer Group	Beginning 1 July 2011 and ending 30 June 2014	75%	Below the 50th percentile	Nil
			Between the 50th percentile and the 75th percentile	50% to 100% (on a straight line basis)
			Above the 75th percentile	100%

(j) In accordance with the terms of the Mermaid Marine Australia Limited Performance Rights Plan – 2012 and the Mermaid Marine Australia Limited Managing Director's Performance Rights Plan – 2012 (as approved by the shareholders at the Company's AGM on 22 November 2012), the number of performance rights which vest to the Managing Director, Chief Operating Officer and Chief Financial Officer following the end of the Performance Period will depend on the growth in the Earnings Per Share of the Company and the Total Shareholder Return relative to a selected peer group of companies in accordance with the table below:

Performance criteria	Performance period	Percentage of LTI subject to performance criteria	Performance criteria targets	Percentage of performance rights which vest if target met
Normalised Earnings Per Share (EPS) growth	Beginning 1 July 2012 and ending 30 June 2015	25%	Less than 6%	Nil
			Equal to 6%	50%
			Between 6% and 12.5%	50% to 100% (pro-rata)
			Equal to 12.5%	100%
Company's Total Shareholder Return (TSR) percentile ranking over the Performance Period relative to a selected Peer Group	Beginning 1 July 2012 and ending 30 June 2015	75%	Below the 50th percentile	Nil
			At the 50th percentile	50%
			Between the 50th percentile and the 90th percentile	50% to 100% (pro-rata)
			At the 90th percentile	100%

27. SHARE BASED PAYMENTS (CONT)

The table below sets out the relevant Performance Criteria for the performance rights granted to other senior management (ie. excluding the Managing Director, Chief Operating Officer and Chief Financial Officer) during the financial year:

Performance criteria	Performance period	Percentage of LTI subject to performance criteria	Performance criteria targets	Percentage of performance rights which vest if target met
Normalised Earnings Per Share (EPS) growth	Beginning 1 July 2012 and ending 30 June 2015	25%	Below 6%	Nil
			Between 6% and 10%	50% to 100% (on a straight line basis)
			Above 10%	100%
Company's Total Shareholder Return (TSR) percentile ranking over the Performance Period relative to a selected Peer Group	Beginning 1 July 2012 and ending 30 June 2015	75%	Below the 50th percentile	Nil
			Between the 50th percentile and the 75th percentile	50% to 100% (on a straight line basis)
			Above the 75th percentile	100%

27.2 Fair value of share rights granted in the year

The weighted average fair value of the rights granted during the year was $2.39 (2012: $1.94). The rights were priced using a binomial option pricing model. Where relevant, the fair value of the rights has been adjusted for any market related vesting conditions.

	2013			2012		
Inputs into the model	Series (14) and (15)	Series (16)	Series (17)	Series (11)	Series (12)	Series (13)
Grant date share price	$3.21	$3.29	$3.42	$3.13	$3.13	$2.96
Exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Expected volatility	30%	30%	30%	30%	30%	30%
Life of rights	2.7 years	2.6 years	2.5 years	2.7 years	2.7 years	2.6 years
Dividend yield	3.80%	3.71%	3.57%	3.26%	3.26%	3.45%
Risk free rate	2.66%	2.68%	2.70%	3.82%	3.82%	3.05%

27.3 Movement in share options and rights during the period

The following reconciles the outstanding share options and rights granted under the Managing Director, Senior Executives and Employee Share Option and Rights Plans at the beginning and end of the financial year:

	2013		2012	
Employee Share Option and Right Plans	Number of options/rights	Weighted average exercise price $	Number of options/rights	Weighted average exercise price $
Balance at the beginning of the financial year	11,622,754	1.78	11,947,274	2.02
Granted during the financial year	933,734	0.00	1,504,655	0.00
Exercised during the financial year	(7,505,525)	2.15	(1,217,111)	1.82
Forfeited during the financial year	(205,292)	1.24	(612,064)	2.01
Expired during the financial year	(69,990)	1.83	–	–
Balance at the end of the financial year	4,775,681	0.91	11,622,754	1.78
Exercisable at end of the financial year	1,424,801	3.05	4,322,148	1.70

27. SHARE BASED PAYMENTS (CONT)

27.4 Share options exercised during the year

The following share options were exercised during the financial year:

2013 – Options – Series	Number exercised	Exercise date	Weighted average share price at exercise date
(1) Issued 22 Nov 2007	970,040	4 Sep 2012	$3.10
(2) Issued 23 Oct 2007	639,699	Various	$3.10
(3) Issued 24 Jan 2008	213,619	Various	$3.21
(4) Issued 23 Sep 2008	1,151,216	Various	$3.38
(5) Issued 27 Nov 2008	1,277,584	28 June 2013	$3.52
(6) Issued 22 Sep 2009	342,102	Various	$3.23
(7) Issued 22 Sep 2009	1,422,909	Various	$4.04
(8) Issued 1 Dec 2009	1,488,356	1 Mar 2013	$4.06

2012 – Options – Series	Number exercised	Exercise date	Weighted average share price at exercise date
(2) Issued 23 Oct 2007	1,089,243	Various	$3.10
(3) Issued 24 Jan 2008	67,868	2 Sep 2011	$3.09
(4) Issued 23 Sep 2008	60,000	31 May 2012	$2.98

27.5 Share options and rights outstanding at the end of the year

The following share options and rights were outstanding at the end of the financial year:

2013 – Options/Rights – Series	Number	Exercise price $	Expiry date
(7) Issued 22 Sep 2009	1,424,801	3.05	18 Sep 2014
(9) Issued 20 Oct 2010	722,919	0.00	1 Jul 2013
(10) Issued 25 Nov 2010	266,351	0.00	1 Jul 2013
(11) Issued 18 Oct 2011	772,084	0.00	1 Jul 2014
(12) Issued 18 Oct 2011	324,650	0.00	1 Jul 2014
(13) Issued 24 Nov 2011	331,142	0.00	1 Jul 2014
(14) Issued 25 Oct 2012	311,634	0.00	1 Jul 2015
(15) Issued 25 Oct 2012	283,254	0.00	1 Jul 2015
(16) Issued 22 Nov 2012	317,865	0.00	1 Jul 2015
(17) Issued 20 Dec 2012	20,981	0.00	1 Jul 2015
Total	**4,775,681**		

27. SHARE BASED PAYMENTS (CONT)

27.5 Share options and rights outstanding at the end of the year (cont)

2012 – Options/Rights – Series	Number	Exercise price $	Expiry Date
(1) Issued 22 Nov 2007	970,040	$1.83	11 Oct 2012
(2) Issued 23 Oct 2007	709,689	$1.83	11 Oct 2012
(3) Issued 24 Jan 2008	213,619	$1.83	24 Jan 2013
(4) Issued 23 Sep 2008	1,151,216	$1.60	23 Sep 2013
(5) Issued 27 Nov 2008	1,277,584	$1.60	23 Sep 2013
(6) Issued 22 Sep 2009	407,182	$0.00	18 Sep 2014
(7) Issued 22 Sep 2009	2,888,794	$3.05	18 Sep 2014
(8) Issued 1 Dec 2009	1,488,356	$3.05	18 Sep 2014
(9) Issued 20 Oct 2010	745,268	$0.00	1 Jul 2013
(10) Issued 25 Nov 2010	266,351	$0.00	1 Jul 2013
(11) Issued 18 Oct 2011	848,863	$0.00	1 Jul 2014
(12) Issued 18 Oct 2011	324,650	$0.00	1 Jul 2014
(13) Issued 24 Nov 2011	331,142	$0.00	1 Jul 2014
Total	**11,622,754**		

28. KEY MANAGEMENT PERSONNEL COMPENSATION

Please refer to the Remuneration Report for details of key management personnel.

28.1 Key management personnel compensation

The aggregate compensation of the key management personnel of the Company and the Group is set out below:

	2013 $	2012 $
Short term employee benefits	5,995,904	5,533,306
Post employment benefits	254,010	294,917
Share based payments	1,445,345	1,341,549
	7,695,259	**7,169,772**

Note: All key management personnel are employed by Mermaid Marine Vessel Operations Pty Ltd, a wholly owned subsidiary of Mermaid Marine Australia Ltd.

29. RELATED PARTY TRANSACTIONS

The immediate parent and ultimate controlling party of the Group is Mermaid Marine Australia Ltd.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

29.1 Trading transactions

During the year Group entities entered into the following trading transactions with related parties that are not members of the Group:

	Sale of goods		Purchase of goods	
	2013 $	2012 $	2013 $	2012 $
Jointly controlled entity	**103,444**	**37,137**	**5,790,396**	**5,854,317**

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

	Amounts owed by related party		Amounts owed to related party	
	2013 $	2012 $	2013 $	2012 $
Jointly controlled entity	**15,458**	**19,557**	**–**	**2,141,749**

Sales and purchases of services to and from related parties were made at normal commercial rates.

Amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current or prior periods for bad or doubtful debts in respect of amounts owed by related parties.

29.2 Loans to related parties

	2013 $	2012 $
Loan to jointly controlled entity	**2,000,000**	**2,000,000**

The parent entity has provided a loan at rates comparable to the average commercial rate of interest.

The loan is unsecured and repayable on demand.

29.3 Other related party transactions

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 31.

Equity interests in jointly controlled entity

Details of interests in jointly controlled entity are disclosed in note 12.

Equity interests in other related parties

There are no equity interests in other related parties.

(b) Transaction with key management personnel

Key management personnel compensation

Details of key management personnel compensation are disclosed in note 28.

29. RELATED PARTY TRANSACTIONS (CONT)

Key management personnel equity holdings

Fully paid ordinary shares of Mermaid Marine Australia Limited:

2013	Balance at 1 July 2012	Granted as compen-sation	Received on exercise of options	Net other change	Balance at 30 June 2013	Balance held nominally
	No.	No.	No.	No.	No.	No.
Mr A Howarth	663,159	–	–	22,980	686,139	–
Mr J Weber	877,153	–	3,735,980	(2,150,000)	2,463,133	–
Mr M Bradley	573,819	–	–	–	573,819	–
Mr J Carver[1]	1,875,671	–	–	(285,000)	1,590,671	–
Mr A Edwards	10,235	–	–	182	10,417	–
Ms E Howell	–	–	–	–	–	–
Mr CG Heng[2]	–	–	–	–	–	–
Mr D Ross	277,153	–	1,144,826	(430,622)	991,357	–
Mr P Raynor	420,281	–	1,210,366	(390,453)	1,240,194	–
Mr S Lee	197,153	–	65,190	(197,153)	65,190	–
Mr D Verboon	215,703	–	–	(39,212)	176,491	–
Mr J Rogers[3]	–	–	–	–	–	–
Mr D Lofthouse	83,587	–	292,497	(207,239)	168,845	–
Mr D Roberts	–	–	107,661	(78,500)	29,161	–
Mr M Gillett	–	–	–	–	–	–
Mr R Furlong	–	–	85,049	(85,049)	–	–
Ms L Shiel Buckey[4]	–	–	–	–	–	–
Mr D Thomas[5]	–	–	–	–	–	–

2012	Balance at 1 July 2011	Granted as compen-sation	Received on exercise of options	Net other change	Balance at 30 June 2012	Balance held nominally
	No.	No.	No.	No.	No.	No.
Mr A Howarth	641,802	–	–	21,357	663,159	–
Mr J Weber	1,277,153	–	–	(400,000)	877,153	–
Mr M Bradley	1,573,819	–	–	(1,000,000)	573,819	–
Mr J Carver	2,914,068	–	–	(1,038,397)	1,875,671	–
Mr A Edwards	10,067	–	–	168	10,235	–
Ms E Howell	–	–	–	–	–	–
Mr D Ross	427,153	–	–	(150,000)	277,153	–
Mr P Raynor	645,747	–	395,704	(621,170)	420,281	–
Mr E Graham[6]	306,586	–	100,000	(133,921)	272,665	–
Mr S Lee	197,153	–	–	–	197,153	–
Mr D Verboon	237,408	–	68,295	(90,000)	215,703	–
Mr J Rogers	–	–	–	–	–	–
Mr D Lofthouse	16,549	–	64,347	2,691	83,587	–
Mr D Roberts	–	–	–	–	–	–
Mr M Gillett	–	–	–	–	–	–
Mr R Furlong	–	–	56,795	(56,795)	–	–

29.RELATED PARTY TRANSACTIONS (CONT)

1. *Mr J Carver retired on 15 July 2013.*
2. *Mr CG Heng was appointed as a Director on 5 July 2012.*
3. *Mr J Rogers stepped down from the role of GM HSEQ on 17 June 2013.*
4. *Ms L Shiel Buckey was appointed as GM Corporate Development on 16 November 2012.*
5. *Mr D Thomas was appointed as GM HSEQ on 17 June 2013.*
6. *Mr E Graham retired on 11 October 2011.*

Share options and rights of Mermaid Marine Australia Limited:

2013	Balance at 1 July 2012	Granted as compen-sation	Exercised	Net other change	Balance at 30 June 2013	Balance vested at 30 June 2013	Vested but not exerc-isable	Vested & exerc-isable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Mr J Weber	4,333,473	317,865	(3,735,980)	–	915,358	–	–	–	1,488,356
Mr D Ross	1,898,796	155,817	(1,144,826)	–	909,787	461,244	–	461,244	691,866
Mr P Raynor	1,503,092	155,817	(1,210,366)	–	448,543	–	–	–	691,866
Mr S Lee	205,495	15,891	(65,190)	–	156,196	106,311	–	106,311	106,311
Mr D Verboon	126,688	14,880	–	–	141,568	95,680	–	95,680	95,680
Mr J Rogers	258,210	34,968	–	–	293,178	182,248	–	182,248	182,248
Mr D Lofthouse	387,971	48,955	(292,497)	–	144,429	–	–	–	202,497
Mr D Roberts	189,493	40,563	(107,661)	–	122,395	–	–	–	107,661
Mr M Gillett	98,479	40,563	–	–	139,042	–	–	–	–
Mr R Furlong	101,925	16,086	(85,049)	–	32,962	–	–	–	85,049
Ms L Shiel Buckey	30,758	20,981	–	–	51,739	–	–	–	–
Mr D Thomas	–	–	–	–	–	–	–	–	–

2012	Balance at 1 July 2011	Granted as compen-sation	Exercised	Net other change	Balance at 30 June 2012	Balance vested at 30 June 2012	Vested but not exerc-isable	Vested & exerc-isable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Mr J Weber	4,002,331	331,142	–	–	4,333,473	2,247,624	–	2,247,624	1,277,584
Mr D Ross	1,736,471	162,325	–	–	1,898,796	914,204	–	914,204	518,500
Mr P Raynor	1,736,471	162,325	(395,704)	–	1,503,092	518,500	–	518,500	518,500
Mr E Graham [1]	556,745	–	(100,000)	(100,602)	356,143	356,143	–	356,143	336,143
Mr S Lee	188,980	16,515	–	–	205,495	65,190	–	65,190	–
Mr D Verboon	179,373	15,610	(68,295)	–	126,688	–	–	–	–
Mr J Rogers	221,524	36,686	–	–	258,210	–	–	–	–
Mr D Lofthouse	400,958	51,360	(64,347)	–	387,971	90,000	–	90,000	–
Mr D Roberts	146,937	42,556	–	–	189,493	–	–	–	–
Mr M Gillett	55,923	42,556	–	–	98,479	–	–	–	–
Mr R Furlong	141,844	16,876	(56,795)	–	101,925	–	–	–	–

(1) Mr E Graham retired on 11 October 2011. Unvested options and rights have lapsed on a pro-rata basis in accordance with the relevant plan rules.

29. RELATED PARTY TRANSACTIONS (CONT)

All share rights issued to the key management personnel during the financial year were made in accordance with the terms of the respective rights plans.

During the financial year 6,641,569 share options (2012: 685,141) were exercised by key management personnel at a weighted average exercise price of $2.27 per option. A total of 6,641,569 (2012: 685,141) ordinary shares in Mermaid Marine Australia Ltd were issued on exercise of these options. No amounts remain unpaid on the options exercised during the financial year at year end.

Further details of the share based payment arrangements during the 2013 and 2012 financial years are contained in note 27.

Other transactions with key management personnel of the Group

Consultancy services

During the year, Sawtell Pty Ltd, an entity of which Mr J Carver is a Director and shareholder, provided consultancy services to the Company upon negotiated commercial terms. Consultancy services charged during the financial year amounted to $220,000 (2012: $220,000), based upon an agreed market day rate.

Equipment hire

During the financial year, the Group recognised equipment hire expenditure of $137,900 (2012: $154,500) for equipment hired from a related company of Mr S Lee. This equipment was hired under commercial terms and rates.

(c) Transactions with other related parties

Other transactions that occurred during the financial year between entities in the wholly owned group were the charter of vessels, and the provision of supply base and slipway services. These are all provided at commercial rates.

30. REMUNERATION OF AUDITORS

	2013 $	2012 $
Auditor of the parent entity		
Audit or review of the financial report	298,725	307,954
Taxation compliance services	72,450	74,625
Taxation consultancy services	8,794	116,243
	379,969	**498,822**
Network firms of the parent entity auditor		
Taxation compliance services	94,874	56,518
Taxation consultancy services	85,667	59,902
	180,541	**116,420**

The auditor of Mermaid Marine Australia Ltd is Deloitte Touche Tohmatsu ("Deloitte").

During the year, the Group conducted vessel operations in a number of countries. The Group consequently incurred and paid taxation consulting and compliance fees to the external auditor, Deloitte and their network firms, during the year in gaining a full understanding of and meeting the Group's taxation obligations in each of those countries.

The Board considered that it was prudent and cost effective to engage the external auditor, Deloitte, to provide the required tax consulting and compliance services during the year because of their detailed knowledge of the Group's affairs including its corporate tax structure. In addition, Deloitte was able to utilise the services of their network firms in the countries the Group operated in during the year to provide the necessary advice regarding the Group's tax obligations and compliance with these tax obligations within each of those countries.

Following a detailed review by the Audit and Risk Committee of the nature of the non-audit services provided by the external auditor during the year, the Board has determined that the services provided, and the amount paid for those services, are compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (Cth) and that the auditor's independence has not been compromised.

31. SUBSIDIARIES

Details of the Group's subsidiaries at the end of the reporting period are as follows:

	Note	Country of incorporation	Ownership interest 2013 %	Ownership interest 2012 %
Parent entity				
Mermaid Marine Australia Limited	(i)	Australia		
Subsidiaries				
Mermaid Marine Vessel Operations Pty Ltd	(ii) (iii)	Australia	100	100
Mermaid Marine Charters Pty Ltd	(ii) (iii)	Australia	100	100
Mermaid Supply Base Pty Ltd	(ii) (iii)	Australia	100	100
Mermaid Marine Asia Pte Ltd		Singapore	100	100
M Logistics Pty Ltd	(ii) (iii)	Australia	100	100
Mermaid Marine Employee Share Trust		Australia	100	100
Mermaid Marine Vessel Holdings Pte Ltd	(ii) (iv)	Singapore	100	–

(i) Mermaid Marine Australia Limited is the head entity within the tax consolidated group.
(ii) These companies are members of the tax consolidated group.
(iii) Pursuant to ASIC Class Order 98/1418, relief has been granted to these wholly owned controlled entities from the Corporations Law requirements for preparation, audit and lodgement of the financial report. As a condition of the Class Order, Mermaid Marine Australia Limited and the controlled entities entered into a Deed of Cross Guarantee on 15 February 2012.
(iv) The company was incorporated on 19 December 2012.

The consolidated statements of comprehensive income and financial position of entities which are party to the deed of cross guarantee are:

	2013 $'000	2012 $'000
Statement of comprehensive income		
Revenue	437,683	368,064
Dividend revenue	15,715	26,572
Other losses	(472)	(613)
Share of profits of jointly controlled entity	3,893	362
Vessel expenses	(238,444)	(222,677)
Supply Base expenses	(96,066)	(53,015)
Slipway expenses	(14,196)	(12,612)
Administrative expenses	(11,427)	(12,013)
Finance costs	(9,788)	(10,130)
Profit before income tax expense	86,898	83,938
Income tax expense	(19,472)	(17,205)
Profit for the year	**67,426**	**66,733**
Other comprehensive income		
Gain/(loss) on cash flow hedges	1,822	(921)
Transfer of cash flow hedge loss to initial carrying amount of fixed asset	973	1,768
Other comprehensive income for the year, net of tax	2,795	847
Total comprehensive income for the year	**70,221**	**67,580**

31. SUBSIDIARIES (CONT)

	2013 $'000	2012 $'000
Statement of financial position		
Current assets		
Cash and cash equivalents	46,695	44,050
Trade and other receivables	119,318	82,206
Inventories	2,454	1,434
Other financial assets	2,030	–
Other	1,992	5,691
Total current assets	**172,489**	**133,381**
Non-current assets		
Investments accounted for using the equity method	8,915	5,022
Other financial assets	184,643	151,853
Property, plant and equipment	277,735	247,738
Goodwill	20,710	20,710
Total non-current assets	**492,003**	**425,323**
Total assets	**664,492**	**558,704**
Current liabilities		
Trade and other payables	48,425	42,040
Unearned revenue	11,274	4,023
Borrowings	29,196	21,762
Other financial liabilities	–	765
Provisions	8,227	5,912
Current tax payables	7,236	7,135
Total current liabilities	**104,358**	**81,637**
Non-current liabilities		
Unearned revenue	–	2,748
Borrowings	150,443	136,363
Deferred tax liabilities	8,090	11,002
Provisions	1,965	1,193
Total non-current liabilities	**160,498**	**151,306**
Total liabilities	**264,856**	**232,943**
Net assets	**399,636**	**325,761**
Equity		
Issued capital	226,382	197,694
Reserves	7,427	3,902
Retained earnings	165,827	124,165
Total equity	**399,636**	**325,761**
Retained earnings		
Retained earnings at beginning of the financial year	124,165	79,107
Net profit	67,426	66,733
Dividend provided for or paid	(25,764)	(21,675)
Retained earnings at end of the financial year	**165,827**	**124,165**

32. PARENT COMPANY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 2 for a summary of the significant accounting policies relating to the Group.

	2013 $'000	2012 $'000
Financial position		
Assets		
Current assets	41,640	41,786
Non-current assets	583,466	354,090
Total assets	**625,106**	**395,876**
Liabilities		
Current liabilities	28,759	23,198
Non-current liabilities	160,588	124,013
Total liabilities	**189,347**	**147,211**
Net assets	**435,759**	**248,665**
Equity		
Issued capital	226,395	197,707
Retained earnings	205,632	47,776
Reserves		
Hedging reserve	(121)	(692)
Employee equity settled benefits	3,853	3,874
Total equity	**435,759**	**248,665**
Financial performance		
Profit for the year	183,620	20,115
Other comprehensive gain/(loss)	571	(692)
Total comprehensive income	**184,191**	**19,423**
Guarantees provided under the deed of cross guarantee	75,509	85,731
Contingent liabilities of the parent entity	–	–
Commitments for the acquisition of property, plant and equipment by the parent entity	–	–

33. FINANCIAL INSTRUMENTS

33.1 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns, while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2012.

The capital structure of the Group consists of net debt (borrowings as detailed in note 18 offset by cash and bank balances) and equity of the Group (comprising issued capital, reserves and retained earnings as detailed in notes 21, 22 and 23).

The Group is not subject to any externally imposed capital requirements.

Based on recommendations of management and the Board, the Group will balance its overall capital structure through payment of dividends, new share issues as well as the establishment of new borrowing facilities or repayment of existing facilities. The Group uses its gearing ratio to manage its capital. The ratio is monitored on a monthly basis by the Board and management and is measured as net debt to equity.

33.1.1 Gearing ratio

The gearing ratio at the end of the reporting period was as follows:

	2013 $'000	2012 $'000
Debt (i)	179,639	158,125
Cash and cash equivalents	(58,824)	(55,283)
Net debt	120,815	102,842
Equity (ii)	403,026	321,779
Net debt to equity ratio	30%	32%

(i) Debt is defined as long and short-term borrowings, as detailed in note 18.
(ii) Equity includes all capital and reserves of the Group that are managed as capital.

33.2 Categories of financial instruments

	2013 $'000	2012 $'000
Financial assets		
Cash and cash equivalents	58,824	55,283
Derivative instrument in designated hedge accounting relationship	2,030	–
Loans and receivables	124,231	85,441
Financial liabilities		
Derivative instrument in designated hedge accounting relationship	–	765
Payables and borrowings at amortised cost	227,968	199,739

33.3 Financial risk management objectives

The Group's treasury function includes the management of the Group's financial assets and commitments including ensuring adequate procedures and controls are in place to manage financial risks. These risks include market risk (including currency and interest rate risk), credit risk and liquidity risk.

A Treasury Policy has been approved by the Board and provides guidelines for use by the treasury function in performing its duties. Compliance with this policy is subject to internal audit procedures and reports are provided to the Audit and Risk committee on at least a bi-annual basis.

The Group seeks to minimise the effects of these risks, by using, where considered appropriate, derivative financial instruments to hedge these risk exposures. The allowable financial derivatives and conditions for their use are documented in the Treasury Policy. The Group does not enter into or trade financial instruments including derivative financial instruments for speculative purposes.

33. FINANCIAL INSTRUMENTS (CONT)

33.4 Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency and interest rate risk; including:

- forward foreign exchange contracts to hedge the exchange rate risk arising from the purchase of vessels denominated by US Dollars contracts; and
- interest rate swaps to mitigate the risk of rising interest rates.

At a Group level, market risks are managed through sensitivity analysis.

33.5 Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies. Consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the financial year are as follows.

	Liabilities		Assets	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
US Dollars	4,357	1,676	14,734	8,954
Singapore Dollars	1,045	1,665	279	459

33.5.1 Foreign currency sensitivity analysis

The Group is mainly exposed to US Dollars (USD) and Singapore Dollars (SGD).

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian Dollar against the relevant foreign currencies. The 10% sensitivity represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit or equity where the Australian Dollar strengthens 10% against the relevant currency. For a 10% weakening of the Australian Dollar against the relevant currency, there would be an equal and opposite impact on the profit or equity.

	USD impact		SGD impact	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Profit or loss	284	59	70	49
Equity (i)	(3,829)	(4,010)	–	60

(i) This is attributable to changes in fair value of derivative instruments designated as hedging instruments in cash flow hedges of $2.6 million (2012: $3.3 million) and the translation from the functional currencies of the Group's foreign entities into Australian Dollars of $1.2 million (2012: $0.7 million).

The Group's profit and loss sensitivity to foreign currency has increased at the end of the current period mainly due to increased foreign currency payables. The Group's equity sensitivity to foreign currency has decreased at the end of the current period mainly due to decreased foreign currency exchange contracts.

33.5.2 Forward foreign exchange contracts

The Group entered into forward foreign exchange contracts to cover specific foreign currency payments required under vessel purchase contracts denominated in US Dollars.

33. FINANCIAL INSTRUMENTS (CONT)

The following table details the forward foreign currency contracts outstanding at the end of the financial year:

Outstanding contracts	Average exchange rate		Foreign currency		Contract value		Fair value	
	2013 $	2012 $	2013 FC'000	2012 FC'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Buy US Dollars								
3 to 6 months	0.988	1.003	26,360	15,804	26,676	15,753	2,151	(132)
12 to 18 months	–	0.985	–	21,180	–	21,507	–	59
							2,151	**(73)**

At reporting date the aggregate amount of unrealised gains under forward foreign exchange contracts relating to the construction cost of new vessels is $2,151,000 (2012: loss of $73,000). In the 2013 financial year, these unrealised gains were deferred in the hedging reserve. At the time that these payments relating to the construction of new vessels are made, the amount deferred in equity will be included in the carrying value of the new vessels.

33.6 Interest rate risk management

The Group is exposed to interest rate risk because it borrows funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views ensuring the most cost-effective hedging strategies are applied.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

33.6.1 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At reporting date, if interest rates had been 100 basis points higher / lower and all other variables were held constant, the impact on the net profit of the Group would be as follows:

- Net profit would decrease / increase by $1,164,000 (2012: decrease / increase by $694,000). This is attributable to the Group's exposure to interest rates on its variable borrowings.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments and the decrease in interest rate swaps to swap floating rate debt to fixed.

33.6.2 Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between floating and fixed rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt. The fair value of the interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the yield curves at the end of the reporting period and the credit risk inherent in the contract, and is discussed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period.

Notes to the Financial Statements for the Year Ended 30 June 2013

33. FINANCIAL INSTRUMENTS (CONT)

Cash flow hedges

Outstanding receive floating pay fixed contracts	Average contracted fixed interest rate		Notional principle value		Fair value	
	2013 %	2012 %	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Less than 1 year	4.24	4.18	50,000	20,000	(121)	(21)
1 to 2 years	–	4.24	–	50,000	–	(671)
			50,000	**70,000**	**(121)**	**(692)**

The interest rate swaps settle on a monthly basis. The floating rate on the interest rate swaps is the Australian Bank Bill Swap Bid Rate. The Group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

33.7 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties. The Group's exposures to its counterparties are continuously monitored by management.

Trade receivables consist of a large number of customers spread across oil & gas exploration, production and related service industries and diverse geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

Apart from the largest and second largest trade receivables (refer note 9), the Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. The credit risk on the largest and second largest receivables is limited due to the customers being large multinational corporations who are making regular payments to the Group.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recognised in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

33.8 Liquidity risk management

The Group manages liquidity risk by maintaining adequate cash reserves, overdraft facilities and borrowing facilities, by continuously monitoring forecast and actual cash flows, and managing credit terms with customers and suppliers. Note 24(d) sets out details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

33. FINANCIAL INSTRUMENTS (CONT)

33.8.1 Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from current interest rates at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weighted average effective interest rate	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	Total
	%	$'000	$'000	$'000	$'000	$'000
30 June 2013						
Non-interest bearing	–	48,329	–	–	–	48,329
Finance lease liability	7.10	312	623	7,579	5,857	14,371
Variable interest rate instruments	5.48	4,367	3,194	21,864	159,501	188,926
		53,008	3,817	29,443	165,358	251,626
30 June 2012						
Non-interest bearing	–	41,614	–	–	–	41,614
Finance lease liability	7.45	4,223	574	2,609	13,393	20,799
Variable interest rate instruments	6.24	4,275	1,754	17,614	143,107	166,750
		50,112	2,328	20,223	156,500	229,163

The following table details the Group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets.

	Weighted average effective interest rate	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	Total
	%	$'000	$'000	$'000	$'000	$'000
30 June 2013						
Non-interest bearing	–	65,737	35,465	21,029	–	122,231
Variable interest rate instruments	1.98	33,883	18	83	2,000	35,984
Fixed interest rate instruments	4.01	–	25,253	–	–	25,253
		99,620	60,736	21,112	2,000	183,468
30 June 2012						
Non-interest bearing	–	64,134	13,102	6,205	–	83,441
Variable interest rate instruments	2.85	32,951	22	99	2,000	35,072
Fixed interest rate instruments	5.61	19,592	3,215	–	–	22,807
		116,677	16,339	6,304	2,000	141,320

The Group has access to financing facilities as described in note 24(d), of which $20.0 million were unused at the end of the reporting period (2012: $18.9 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

Notes to the Financial Statements for the Year Ended 30 June 2013

33. FINANCIAL INSTRUMENTS (CONT)

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on the derivative instruments that settle on a net basis.

	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	5+ years
	$'000	$'000	$'000	$'000	$'000
30 June 2013					
Net settled:					
– Interest rate swaps	(58)	(58)	–	–	–
– Foreign exchange contracts	–	–	1,745	–	–
	(58)	(58)	1,745	–	–
30 June 2012					
Net settled:					
– Interest rate swaps	(35)	(60)	(228)	(52)	–
– Foreign exchange contracts	–	–	(245)	(724)	–
	(35)	(60)	(473)	(776)	–

33.9 Fair value of financial instruments

33.9.1 Fair value of financial instruments carried at amortised cost

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

33.9.2 Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair values of derivative instruments are calculated using quoted prices. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

33.9.3 Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
30 June 2013				
Financial assets at fair value				
Derivative (cash flow hedge)	–	2,030	–	2,030
Total	–	2,030	–	2,030
Financial liabilities at fair value				
Derivative (cash flow hedge)	–	–	–	–
Total	–	–	–	–

33. FINANCIAL INSTRUMENTS (CONT)

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
30 June 2012				
Financial assets at fair value				
Derivative (cash flow hedge)	–	–	–	–
Total	**–**	**–**	**–**	**–**
Financial liabilities at fair value				
Derivative (cash flow hedge)	–	765	–	765
Total	**–**	**765**	**–**	**765**

There were no transfers between Level 1 and 2 in the period.

34. SUBSEQUENT EVENTS

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.

Additional Securities Exchange Information

for the year ended 30 June 2013

ORDINARY SHARE CAPITAL (AS AT 11 SEPTEMBER 2013)

230,918,607 fully paid ordinary shares are held by 7,167 individual shareholders. All issued ordinary shares carry one vote per share.

Substantial shareholders (as at 11 September 2013)	Number of Shares	% of Issued Capital
National Australia Bank Limited	14,790,531	6.405%
Bennelong Funds Management Group Pty Ltd	13,351,829	5.852%

DISTRIBUTION OF HOLDERS OF ORDINARY SHARES (AS AT 31 AUGUST 2013)

Size of Holding	Number of ordinary shareholders
1 to 1,000	1,987
1,001 to 5,000	2,707
5,001 to 10,000	1,112
10,001 to 100,000	1,238
100,001 and over	100
Total	**7,470**

Twenty Largest Shareholders (as at 10 September 2013)	Number of Shares	% of Issued Capital
National Nominees Limited	35,232,463	15.26
J P Morgan Nominees Australia Limited	35,224,939	15.25
HSBC Custody Nominees (Australia) Limited	34,241,931	14.83
JP Morgan Nominees Australia Limited <Cash Income A/C>	10,866,562	4.71
BNP Paribas Nominees Pty Ltd <DRP>	10,797,851	4.68
Citicorp Nominees Pty Ltd	6,993,248	3.03
Argo Investments Limited	6,726,831	2.91
Citicorp Nominees Pty Ltd <Colonial First State Inv A/C>	4,890,256	2.12
Evelin Investments Pty Ltd	3,500,000	1.52
BNP Paribas Nominees Pty Ltd ACF Pengana <DRP A/C>	2,480,000	1.07
Sandhurst Trustees Ltd <DMP Asset Management A/C>	1,752,277	0.76
Thorney Holdings Pty Ltd	1,745,747	0.76
Mr Jeffrey Andrew Weber	1,639,684	0.71
AMP Life Limited	1,493,112	0.65
Sawtell Pty Ltd <Jim Carvers A/C>	1,384,768	0.60
Mr Peter Raynor	1,340,767	0.58
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	1,207,372	0.52
The Australian National University	1,100,000	0.48
Mirrabooka Investments Limited	875,000	0.38
CS Fourth Nominees Pty Ltd	764,348	0.33
Total	**164,257,156**	**71.13**

UNMARKETABLE PARCELS (AS AT 31 AUGUST 2013)

The number of holders holding less than a marketable parcel of the Company's shares is as follows:

Minimum Parcel Size	Number of ordinary shareholders	Units
130	640	7,270

VOTING RIGHTS

All ordinary shares carry one vote per share without restriction.

UNQUOTED OPTIONS/RIGHTS (AS AT 11 SEPTEMBER 2013)

3,786,411 unlisted options/rights are held by 109 individual option holders.

SHAREHOLDER ENQUIRIES

Shareholders can obtain information about their shareholding by contacting the Company's share registry:

Computershare Investor Services Pty Ltd
GPO Box 2975EE
MELBOURNE VIC 3000

Enquiries:
(within Australia) 1300 850 505
(outside Australia) +61 3 9415 4000
Fax: +61 3 9473 2500
web.queries@computershare.com.au
www.computershare.com.au

CHANGE OF ADDRESS

Shareholders should notify the share registry in writing immediately there is a change to their registered address.

STOCK EXCHANGE LISTING

Shares in Mermaid Marine Australia Limited are listed on the Australian Securities Exchange.

PUBLICATIONS

The Annual Report is the main source of information for shareholders.

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