

NEPTUNE MARINE SERVICES LIMITED AND CONTROLLED ENTITIES

ABN: 76 105 665 843

**Financial Report
For The Year Ended
31 March 2018**

NEPTUNE MARINE SERVICES LIMITED AND CONTROLLED ENTITIES

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CORPORATE INFORMATION

Directors

Mr Boon Wee Kuah
Chairman

Mr Peter Wallace
Non-Executive Director

Mr Nicholas Cocks
Non-Executive Director

Mr Robin King
Executive Director

Company Secretary
Mr Ian Hobson

Registered Office

Neptune Marine Services Limited
404 Orrong Road
Welshpool Western Australia 6106

Principal Place of Business

Neptune Marine Services Limited
404 Orrong Road
Welshpool Western Australia 6106

Auditors

Ernst & Young
11 Mounts Bay Road
Perth, WA, 6000

Share Registry

Computershare Investor Services Pty Ltd
Level 11, 172 St Georges Tce
Perth, WA, 6000

Stock Exchange

ASX Limited
Central Park, 152-158 St Georges Tce
Perth, WA, 6000

ASX Code

NMS

CHIEF EXECUTIVE OFFICER'S REPORT

Market conditions remained difficult during the year, although there appears to be some small positive signs as we look ahead. Over the last year there has been increasing competition and downward pressure on margins. Hence during the year we have made further cost savings and undertaken necessary restructuring to improve efficiency and competitiveness, however our financial position continues to reflect the challenging environment.

Despite the challenges the Neptune team has had some notable achievements during the year:

- award of the first NEPSYS dry underwater welding project in Brazil for FPSO repairs
- ongoing execution of maintenance scopes of work in Papua New Guinea
- extensive diving support to Chevron for their Barrow Island facilities
- award of the first engineering scopes as a result of opening our Houston office
- award and execution of various project works in the Middle East

KEY CLIENTS AND SUSTAINABILITY

Neptune has a well-established culture of excellent cooperation and collaboration with our Clients and Partners. During the year our long term relationships with a number of key Clients, including BP, Chevron, ENI, Oil Search and Quadrant, resulted in us continuing to provide a wide variety of ongoing support to them on various project scopes in UK, Australia and PNG.

HEALTH AND SAFETY

We experienced our first LTI after reaching almost 5 years without an LTI incident across the group. Our total recordable incident frequency rate has not met our target and as such this is a key focus moving forward. We remain committed to maintaining a strong HSE culture and improving performance throughout all aspects of the business in the coming year.

OUTLOOK

Despite an improvement to the market remaining elusive, tendering activity has remained high over the last year which is positive. Meanwhile we have continued to focus on maintaining our excellent safety performance, quality delivery of our services, developing competitive solutions to our client's needs and working with key partners to help achieve these outcomes.



Robin King

Chief Executive Officer

Dated this 29th day of June 2018

DIRECTORS' REPORT

Your Directors present their report on the Company and its controlled entities (the Group) for the financial year ended 31 March 2018.

The names of Directors in office at any time during or since the end of the year are:

Mr Boon Wee Kuah
Mr Peter Wallace
Mr Dominic Siu*
Mr Nicholas Cocks**
Mr Robin King

* Resigned 31 December 2017

** Appointed 1 January 2018

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

INFORMATION ON DIRECTORS

Mr Boon Wee Kuah

Qualifications

Chairman

Mr Kuah has a Bachelor of Engineering (1st Class Honours) from Imperial College of Science and Technology, London. He is also a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW), having trained with KPMG in London.

Experience

Mr Kuah is the Group CEO of MTQ Corporation Limited; he joined the MTQ Board on 10 October 2006 and assumed his current role in July 2010. Prior to that, Mr Kuah has had a distinguished international career working in London, Hong Kong, Australia and Singapore. He had previously been a Senior Management Executive of PSA International Pte Ltd, a 100% subsidiary of Temasek Holdings which has extensive port interests around the world. He also served as CFO for Singapore Technologies Engineering, a major listed company on the Singapore Stock Exchange ("SGX"), also majority-owned by Temasek Holdings.

Mr Peter Wallace

Qualifications

Non-Executive Director

Mr Wallace is a Senior Fellow of the Financial Services Institute of Australia, a Fellow of the Australian Institute of Company Directors, and an Associate Fellow of the Australian Institute of Management.

Experience

Mr Wallace has spent some 45 years in the Financial Services industry with experience gained in all aspects of financing with particular involvement in corporate and international funding. Past Executive positions held include Chief Credit Officer and Chief Operating Officer roles in a major regional Bank and Head of Corporate WA for Bell Potter Securities Ltd, one of Australia's largest stockbroking houses. He has directed capital raising for several large publicly listed companies as well as provided a variety of corporate advisory services to a wide range of companies, both private and publicly owned. Mr Wallace has held a number of public and private company Board positions including past Directorships in Decmil Engineering Ltd, RuralAus Investments Ltd, Tethyan Copper Ltd and HBF Health Ltd and is a serving Non-Executive Director Katana Investments Ltd and Goldfields Money Ltd.

Mr Dominic Siu

Qualifications

Non-Executive Director (resigned 31 December 2017)

Mr Siu graduated with a Bachelor of Civil and Structural Engineering (Honours) degree and is a Chartered Accountant qualified in the UK.

Experience

Mr Siu is the Group CFO of MTQ Corporation Limited. He is an experienced senior finance manager and has held senior finance positions in Greater China and South East Asia regions.

Mr Nicholas Cocks

Qualifications

Non-Executive Director (appointed 01 January 2018)

Mr Cocks graduated from Australian National University, Canberra with a Bachelor of Commerce degree.

Experience

Mr Cocks is the Chief Executive Officer of Readymix Holdings International Pte Ltd, a privately held company manufacturing concrete and cement in South East Asia. In addition to his role at Readymix, Mr Cocks serves as a Non-Executive Director of MTQ Corporation Ltd, Forest Adventure Pte Ltd, Qourier Pte Ltd, OxfordCaps Pte Ltd and ReadyVentures, a venture capital fund focusing on early stage companies.

Mr Robin King**Executive Director***Qualifications*

Mr King holds a Masters of Business Administration and a Bachelor of Civil Engineering (First Class Honours).

Experience

Mr King has worked in the international oil and gas industry since 1982, focusing mainly in the offshore and subsea sectors. Prior to being appointed CEO at Neptune in 2010, Mr King was the CEO of Technip Subsea 7 Asia Pacific, responsible for operations throughout Oceania and South East Asia.

Company Secretary

Mr Ian Hobson was appointed Company Secretary on 26 March 2015. Mr Hobson is a Fellow Chartered Accountant and Chartered Secretary with over 30 years' experience in various company secretary and finance roles. He is a member of the Institute of Chartered Accountants, the Governance Institute of Australia and the Australian Institute of Company Directors.

DIRECTORS' INTERESTS

The relevant interest of each Director in the shares and options issued by the Company at the date of this report is as follows:

	Ordinary Shares	Options over Ordinary Shares
Mr Boon Wee Kuah (*)	-	-
Mr Nicholas Cocks (*)	-	-
Mr Peter Wallace	-	-
Mr Robin King	-	-

The relevant interest of each Director in the shares and options issued by MTQ Corporation Limited (related body corporate) at the date of this report is as follows:

	Ordinary Shares	Options over Ordinary Shares
Mr Boon Wee Kuah (*)	7,669,539	786,804
Mr Nicolas Cocks (*)	637,659	101,714
Mr Peter Wallace	-	-
Mr Robin King	207,207	-

(*) Mr Boon Wee Kuah and Mr Nicholas Cocks are associated with Blossomvale Investments Pte Ltd, which is the controlling entity of Neptune.

DIVIDENDS PAID OR PROPOSED

Dividends paid in the year:	Cents	\$000
Interim for the year on ordinary shares	Nil	-
Final for the year on ordinary shares	Nil	-

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Group comprises: commercial diving services; hydrographic surveying, positioning and geophysical services; NDT, inspection and mechanical repair services; pipeline and subsea structure stabilisation and grouting; ROV services; subsea and pipeline engineering; manufacturing, assembly and testing services and dry underwater welding using the proprietary patented NEPSYS® technology.

Neptune's primary focus is the international oil and gas, marine and renewable energy offshore industries in the key regions of Australia, Asia, and the UK.

OPERATING AND FINANCIAL REVIEW**REVIEW OF OPERATIONS**

Neptune reported a net loss after tax of \$29.989 million (2017: \$8.230 million) for the financial year ending 31 March 2018. Annual revenue of \$67.689 million (2017: \$81.891 million) was down compared to the previous year, significantly contributed to by the challenging industry conditions.

The Group continues to have a strong working capital position, ending with \$6.134 million in cash (2017: \$12.603 million) and minimal interest bearing debt of \$0.235 million at year end (2017: \$0.774 million).

Neptune also had various one off items during the period, including:

- Provision for possible non-recoverable debt;
- Goodwill Impairment
- Deferred Tax Asset derecognition; and
- Restructure costs

OFFSHORE SERVICES

The Offshore Services division reported revenues totalling \$55.223 million for the twelve month period ended 31 March 2018 (2017: \$65.805 million).

The Diving service line continued to operate in PNG for works with Oil Search, however some parts of the scope were cancelled due to the earthquake which hit the area at the start of 2018. These works are now deferred to the 2019 program. The Darwin base was busy with ongoing works at Groote Eylandt for South32, and at the Melbourne base work continued around the Port of Melbourne with jetty rectification and repair works to the supporting pile structures.

As the oil price recovers and the market turns towards a slow recovery, the Survey service line has seen an increase in awards relating to rig positioning in Australia using the in-house NepSMART and NepCAT positioning and visualisation products. Drilling activity has been a combination of exploration and development projects. The Singapore based branch were busy for much of the year with supply of ROV and survey services to Boskalis on-board the vessel MMA Prestige which picked up various scopes in South East Asia supported by the Neptune services on-board.

Eni Australia issued a contract extension to Neptune for the IMMR services contract at Blacktip which they followed up with an increase in requirements for services from the Asset Integrity service line at the gas plant.

The Stabilisation business was awarded the structural grouting works in Saudi Arabia on the Hasbah Redevelopment Project by the consortium of Subsea7 and Larsen & Toubro in continuation of existing works to deliver crossing structures and concrete mattresses. Stabilisation have also been awarded a number of small fast-tracked projects delivered within South-East Asia for a range of contractors and operators.

In November, Neptune completed the Sea Trucks Group PIAM Project in Argentina. The project involved the Survey teams in Australia and Singapore, as well as Asset Integrity and ROV in Singapore. Stabilisation was also involved in the project in providing fabricated subsea mattresses from their Batam facility.

Finally, Neptune group have signed a global frame agreement with Telford Offshore for support services including ROV, survey and stabilisation in support of Telford's offshore projects on-board their fleet of DP3 construction and accommodation support vessels.

ENGINEERING SERVICES

The Engineering Services division reported revenues of \$12.466 million for the period ended 31 March 2018 (2017: \$16,086 million).

The Engineering service continued to support key clients such as BP and saw activity through the Houston branch where they have enjoyed their first contract awards this year. In Australia the team saw success with Quadrant with a contract to design subsea equipment to support an upgrade project and managed the ENI pipeline pigging campaign,

MAT were heavily involved in tree refurbishment for Anasuria, enabling decommissioned trees to be reused subsea.

Another highlight for our Diving and Engineering service lines is the award of a major FPSO hull repair project in Brazil which is currently underway using NEPSYS®. This has led to a focus on the Brazil market which has large potential for requirement of NEPSYS® services in the future.

OPERATING RESULTS

The consolidated net loss after tax for the Group for the year ended 31 March 2018 was \$29.989 million (2017: \$8.230 million loss).

FINANCIAL POSITION

The net assets of the consolidated Group have decreased by \$29.093 million to \$28.558 million at 31 March 2018 (2017: \$57.651 million). Net tangible assets were \$27.979 million (2017: \$44.242 million).

Debt Position

As at 31 March 2018, the Company had interest bearing debts of \$0.235 million (2017: \$0.774 million) which consists of equipment leasing and other finance leases. Interest-bearing debt as a percentage of equity was 0.82% (2017: 1.34%).

Cash and Liquidity

As at 31 March 2018, cash and cash equivalents was \$6.134 million (2017: \$12.603 million). At 31 March 2018, the working capital position was \$12.256 million (2017: \$22.129 million). This equates to a current ratio (current assets / current liabilities) of 2.0 (2017: 2.4).

Goodwill Impairment

Goodwill impairment of \$13.010 million was recognised during the year ended 31 March 2018 (2017: \$Nil).

Significant Changes in State of Affairs

There were no significant changes in state affairs during the year.

Events After the Reporting Period

There have been no events after the reporting period that have a material impact on the annual report for FY18.

Future Development, Prospects and Business Strategy

Neptune will focus on maximising revenue, managing its cost base, targeting new areas for growth and working to identify complementary partners as the challenging climate of the global oil and gas industry continues into FY19.

Environmental Requirements and Performance

Neptune's operations are subject to both Commonwealth and State environmental legislation. Neptune's Board believes that Neptune has the appropriate management systems in place to ensure its statutory obligations are met and is not aware of any breach of these obligations.

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REMUNERATION REPORT (AUDITED)

This Remuneration Report for the year ended 31 March 2018 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 (The Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

This report details the nature and amount of remuneration under the current remuneration framework for each director of the Company, as well as for other "Key Management Personnel" (KMP) of the Group. The format of this report aligns with the June 2012 recommendations of the Australian Institute of Company Directors.

For the purpose of this report, the definition of KMP aligns with that of the Accounting Standards, namely: those persons having authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly, including any director (whether executive or otherwise) of that entity.

Governance

In determining the remuneration of its Key Management Personnel (KMP), Neptune has established the Remuneration Committee. The Committee recommends to the Board appropriate remuneration policies and practices including the specific remuneration (including base pay, incentive payments, equity awards, superannuation, retirement rights, termination payments, services contracts) to the CEO and other KMP. The proceedings of each Remuneration Committee meeting are reported directly to the Board.

Diversity at Neptune Marine Services

The Group recognises the value contributed to the organisation by employing people with varying skills, cultural backgrounds, ethnicity and experience. As an international operation, Neptune understands the value of having a culturally diverse workforce capable of operating in various countries. The Company believes its diverse workforce is a key to its continued growth, improved productivity and performance.

We actively value and embrace the diversity of our employees and are committed to creating an inclusive workplace where everyone is treated equally and fairly, and where discrimination, harassment and inequity are not tolerated. While the Company is committed to fostering diversity at all levels, diversity has been and continues to be a priority for the Group.

To this end, the Group supports the recommendations contained in the *ASX Corporate Governance Principles and Recommendations*. The Group has established a diversity policy outlining the Board's views for achieving diversity. This is reviewed regularly to measure the progress towards achieving those policy objectives. The diversity policy is available in the policies section on the Group's website. Neptune is continuing to work towards achieving improved outcomes in line with our policy.

Workplace Gender Equality Act

In accordance with the requirements of the Workplace Gender Equality Act 2012, the Group has lodged its annual report with the Workplace Gender Equality Agency. If you would like to access the 2017/2018 public report, please contact the Group's Human Resource team

Remuneration Philosophy and Policy

(i) Non-Executive Director remuneration

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of a high calibre, whilst incurring a cost that is acceptable to shareholders.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed regularly against fees paid to Non-Executive Directors (NEDs) of comparable companies. The Board considers advice from external consultants when undertaking the review process. Neptune did not engage any external consultants during the period.

The Company's constitution and the ASX listing rules specify that the NED fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2007 Annual General Meeting (AGM) held on 19 November 2007 when shareholders approved an aggregate fee pool of \$600,000, such fees to be allocated to the Directors as the Board of Directors may determine. Total fees paid out of this pool for period to 31 March 2018 including superannuation and committee fees, was \$262,693 (2017: \$272,805).

(ii) Executive remuneration

The remuneration policy at Neptune is based on the philosophy of aligning Executive remuneration with shareholder and business objectives. This is achieved by providing a fixed remuneration component in combination with specific short-term and long-term incentives that are based on key performance areas that directly impact on the financial results of the consolidated Group.

The Board believes the remuneration policy is both appropriate and effective in its ability to attract and retain high calibre Executives to manage the consolidated Group.

The remuneration structure for key Executives is based on a number of factors, including:

- Experience of the individual concerned;
- Overall company performance; and
- Continuity of service (where relevant for various reward incentives).

Key Management Personnel are also remunerated based on achievement of short and long term objectives considered important to the success of the Company. All remuneration paid to key Executives is valued at the cost to the Company and is expensed.

Remuneration Structure

(i) Non-Executive Directors

The remuneration of NEDs consists of Directors' fees and Committee fees. NEDs do not receive retirement benefits, nor do they participate in any incentive programs.

Each NED, except Board Chairman, receives a base cash fee of \$70,000 plus superannuation for being a Director of the Group, while the Board Chairman receives a base cash fee of \$140,000. An additional fee of \$7,500 to \$15,000 (depending on the function of the committee) plus superannuation is paid if the Director (except for the Board Chairman) is a Chair of a Board Committee. The payment of additional fees for serving on a committee recognises the additional time commitment required by NEDs who serve on sub-committees.

(ii) Executive

Neptune is committed to ensuring its remuneration structures are appropriately aligned with shareholder value creation over the short and long term and focuses on motivating, rewarding and retaining key Executives. Our structures aim to link performance and reward while taking into account challenges and market forces that companies such as Neptune are confronted with when faced with cyclical and economic forces.

The key initiatives under this review were:

- Benchmarking Executive remuneration to determine where the roles were currently positioned, looking at base salary, short-term incentives and long-term incentives.
- Segmentation of employees into 3 key groupings to better tailor remuneration packages for specific groups of employees
 - o Segment 1 - individuals within Neptune who are best able to influence the long-term strategy and direction of the organisation
 - o Segment 2 – key managers across the organisation who have greater influence over business unit outcomes rather than company-wide outcomes
 - o Segment 3 – all other employees
- Creating a Total Annual Remuneration Framework for Segment 1 and 2 employees.
- Design and implementation of a new equity-based long-term incentive plan.

Neptune's remuneration strategy recognises and rewards performance in a way that is consistent with general practices in the markets in which the Group operates. The Company's remuneration philosophy is focused on the following key principles:

- Alignment to sustainable long-term value creation
- Attraction and retention of highly skilled employees
- Competitiveness within the global markets in which the company operates
- Alignment through high levels of equity ownership
- High rewards for true outperformance
- Simple and transparent remuneration framework
- Consistent remuneration framework across the organisation

As a result of these reviews the Board adopted the Executive Long Term Incentive Plan (LTI Plan) and the Executive Short Term Incentive Plan (STI Plan).

The objective of the LTI Plan is to reward performance that achieves long term growth in shareholder value. The objective of the STI Plan is to reward Neptune's Executives for occupational safety & health targets, continued cost savings, efficiencies, growth in revenues, margin control, and organisational initiatives. Both plans seek to reward and incentivise by aligning the interests of Executives with those of shareholders, and are intended to form part of the overall remuneration package of the Executive.

The CEO's remuneration mix comprises:

Fixed Element

Salary and allowances - 34% remuneration as a proportion of total remuneration.

At Risk Element

Up to 46.5% based on achievement of short term KPI's and profit outcomes (STI); and
Up to 19.5% long term incentives (LTI) based on specific performance outcomes.

Executives' remuneration mix ranges from 50% fixed remuneration as a proportion of total remuneration, up to 25% STI based on KPI's and 25% based on LTI performance outcomes. In addition, Executives are eligible for a further discretionary bonus approved by the Board in case of significant over performance.

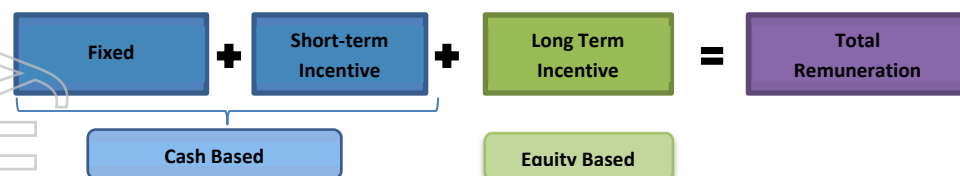
The employment conditions of the Chief Executive Officer, Robin King and other key Executives are formalised in contracts of employment. The contracts for service between the Company and Executives are on a continuing, permanent basis. Upon retirement, Executives are paid employee benefit entitlements accrued to the date of retirement. Subject to the terms and conditions of the employment contracts, any performance right or option that has not vested or been exercised before or on the date of termination will subsequently lapse.

Directors, Executives and employees receive superannuation contributions. The contribution currently stands at 9.5% however some individuals choose to sacrifice a portion of their salary in order to increase contributions towards superannuation.

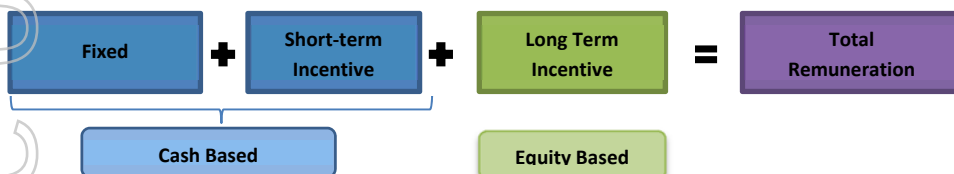
Total Remuneration Components

For FY18 the total annual remuneration structure for Segment 1 and 2 employees was as per the below table

Segment 1 – CEO, COO & CFO



Segment 2 – Business Unit managers, Functional heads, other key employees



Reward Mix: The CEO will have over 66% of his total annual remuneration at-risk (i.e. subject to performance) while other Segment 1 employees will have between 40% and 50% of their total annual remuneration at-risk. For Segment 2 employees, approximately 30% of their total annual remuneration will be at-risk. This structure ensures that a significant portion of an employee's remuneration is directly linked to performance.

Fixed Remuneration: An employee's fixed remuneration is based on market benchmarking to ensure the pay is commensurate with the market in which the Group operates. The market benchmarking uses data obtained from similar sized ASX listed companies which operate in the mining/resources services sector and international listed companies with which Neptune competes for projects. In setting remuneration, consideration is given to the experience, skills and knowledge of role incumbents. Fixed remuneration is comprised of base salary, superannuation, other benefits and the cost of Fringe Benefits Tax, and is designed to reward "come-to-work" behaviours, values and activities required to fulfil individuals' job description. In FY17 as a result of the cost challenges facing Neptune, a temporary reduction was applied to the fixed remuneration component of executive salaries. This reduction was carried over into FY18.

Short-term Incentives (STI): STI rewards reflect both individual and business performance over the relevant financial period through the use of individual performance scorecards. Each employee will have a target STI expressed as a percentage of their base salary. Payment of the individual's target STI is dependent on performance against their scorecard, which measures performance against the following key performance drivers:

- Financial Performance – based directly on financial performance against targets
- Occupational Health, Safety and Environment (typical KPI's are based around excellence in achieving overall Company performance on safety, Executive participation in safety activities and compliance with laws)
- Human Resources Management (typical KPI's are measurements of turnover, staff costs and employee disputes)
- Operational Effectiveness (typical KPI's are successful completion of special projects, identification of cost savings, improvements in operating systems, debtors collection, compliance with laws etc.)

Long-term Incentive (LTI): Long Term Incentives are now offered as a share plan for executives and some key employees. Segment 1 employees are offered a higher percentage of shares.

MTQ Share Plan

MTQ Corporation Limited ("MTQ"), Neptune's ultimate parent entity, operates a compensation scheme which awards fully paid shares to the participants of the scheme, when and after pre-determined performance conditions are met. The purpose of the scheme is to motivate and retain Group employees including employees of subsidiary companies.

Neptune's Segment 1 employees (CEO and CFO) are participants in the scheme. Other employees are also included in the scheme. Under the scheme the participants attract an award based on a percentage of annual base salary.

Issuance of shares to Neptune executives under the MTQ Share Plan will reflect the performance of Neptune as part of the MTQ Group. Performance exceeding the set targets shall attract an increase of the award size. Performance short of the set targets shall attract a decrease. At the end of the Performance Year, each target is evaluated by the Remuneration Committee. Remuneration Committee then determines if performance targets have been satisfied and if so the extent to which they have been satisfied.

The monetary value to be awarded are determined and converted to a number of MTQ ordinary shares based on the ruling market price which is defined as the closing market price after the financial year announcement. The number of shares as determined is the number of shares awarded for the Performance Year. The amount of MTQ Shares awarded shall be delivered in three equal tranches after the end of the Performance Year, year 1, year 2 and year 3 on 1 September. The vesting date for the first instalment of the shares awarded for Performance Year 2014/2015 is August 2015. The employees must still be employed by the company at these dates to receive the shares.

For the 2014 and 2015 MTQ share plan that has been awarded, the monetary value has been determined by the Remuneration Committee after assessing whether the performance targets have been satisfied. For the 2016 and 2017 MTQ share plan, no shares were awarded as targets set out in the MTQ Share Plan were not met.

Chief Executive Officer Service Agreement – Mr Robin King

Under his contract, the CEO is entitled to the following conditions: if the Company terminates the agreement for any reason other than pursuant to specified circumstances, including offences involving fraud or dishonesty or committal of a serious or persistent breach of the agreement which was incapable of satisfactory remedy, the Company is required to pay to the CEO all remuneration accrued up to and including the date of termination, payment in lieu of annual leave and long service leave to which he is entitled at the date of termination, and an amount equal to 12 months base salary plus any accrued performance entitlements.

The CEO's current cash salary at the date of this report is \$477,913 per annum with an additional \$34,000 per annum car allowance. The Remuneration Committee determines the proportion of fixed and variable compensation for each Key Management Personnel.

Employment Contracts

The key terms and conditions of the current Executive and Executive service agreements are outlined below:

Executives	Position	Contract Duration	Non-Solicitation Clauses	Notice Periods based on Current Base Salary
Mr Robin King	Chief Executive Officer	Unlimited	Up to 12 months	12 months by Neptune, 6 months by the Executive
Mrs Ashley Muirhead	Chief Financial Officer	Unlimited	Up to 12 months	6 months by Neptune, 3 months by the Executive

Company Performance and the Link to Remuneration

(i) Short Term Incentive (STI)

For the CEO and CFO, 50% of their STI is directly linked to measures of overall profit. For other Executives, up to 50% of their STI relates to profit although this may be a mix of the profitability of the business or region under their direction and the overall Company performance. The ability to qualify for this incentive depends upon whether Neptune achieves profit targets as set by the Board.

(ii) Long Term Incentive (LTI)

As previously described, Neptune offers a share plan as a Long Term Incentive to executives and employees.

Remuneration Outcomes

The remuneration received by KMP and NEDS during the 2018 financial period is summarised in the below table.

2018	Short-Term Benefits			Post-Employment Benefits	Share-Based Payment	Total	Proportion of Remuneration Based on Performance %
	Cash, Salary & Fees \$	Bonus ¹ \$	Other ² \$	Superannuation \$	LTI Plan ³ \$	\$	
Directors							
Mr Boon Wee Kuah	120,000 ⁴	-	-	-	-	120,000	0%
Mr Dominic Siu ⁶	45,000 ⁴	-	-	-	-	45,000	0%
Mr Nicholas Cocks ⁷	15,000 ⁴	-	-	-	-	15,000	0%
Mr Peter Wallace	75,519	-	-	7,174	-	82,693	0%
Mr Robin King	471,785	-	33,564	48,008	(8,901)	544,456	(2%)
	727,304	-	33,564	55,182	(8,901)	807,149	
Key Management Personnel (KMP)							
Mr Vincent Allegre ⁵	375,655	-	28,004	38,349	(3,191)	438,817	(0%)
Mrs Ashley Muirhead ⁸	101,519	-	13,251	10,903	(673)	125,000	(1%)
Mr David Binns ⁸	33,148	-	-	3,149	-	36,297	0%
	510,322	-	41,255	52,401	(3,864)	600,114	
	1,237,626	-	74,819	107,583	(12,765)	1,407,263	

¹ No bonus was paid in FY18 due to the financial results achieved in the current year

² Other includes vehicle allowances.

³ Share based payments are negative in FY18 as the benefit is based on estimates which have been adjusted based on expected achievement of performance targets.

⁴ Fees are paid to Blossomvale Investments Pte Ltd

⁵ Mr Vincent Allegre left Neptune on 12 April 2018. The termination letter was agreed during October 2017 with the final termination payout agreed to be paid during April 2018, in the next financial year.

⁶ Mr Dominic Siu resigned on 31 December 2017

⁷ Mr Nicholas Cocks was appointed on 01 January 2018

⁸ Mrs Ashley Muirhead was on Maternity Leave from May 2016 to June 2017. Mr Ashley Gilbert was contracted as Group CFO from May 2016 to January 2017 whilst Mr David Binns (Group Financial Controller) became acting Chief Financial Officer from January 2017 until June 2017.

Remuneration Outcomes

The remuneration received by KMP and NEDS during the 2017 financial period is summarised in the below table.

2017	Short-Term Benefits			Post-Employment Benefits	Share-Based Payment	Total	Proportion of Remuneration Based on Performance %
	Cash, Salary & Fees \$	Bonus ¹ \$	Other ² \$	Superannuation \$	LTI Plan ³ \$	\$	
Directors							
Mr Boon Wee Kuah	126,000 ⁴	-	-	-	-	126,000	0%
Mr Dominic Siu	63,000 ⁴	-	-	-	-	63,000	0%
Mr Peter Wallace	76,534	-	-	7,271	-	83,805	0%
Mr Robin King	506,137	-	36,016	51,504	(98,612)	495,045	(20%)
	771,671	-	36,016	58,775	(98,612)	767,850	
Key Management Personnel (KMP)							
Mr Vincent Allegre	373,011	-	27,012	38,002	(35,094)	402,931	(8%)
Mrs Ashley Muirhead ⁵	48,546	-	6,326	5,213	(3,177)	56,908	(6%)
Mr Ashley Gilbert ⁵	147,203	-	10,852	13,984	-	172,039	0%
Mr David Binns ⁵	35,502	-	-	3,373	-	38,875	0%
	604,262	-	44,190	60,572	(38,271)	670,753	
	1,375,933	-	80,206	119,347	(136,883)	1,438,603	

¹ No bonus was paid in FY17 due to the financial results achieved in the current year

² Other includes vehicle allowances.

³ Share based payments are negative in FY17 as the benefit is based on estimates which have been adjusted based on expected achievement of performance targets.

⁴ Fees are paid to Blossomvale Investments Pte Ltd

⁵ Mrs Ashley Muirhead was on Maternity Leave from May 2016 to June 2017. Mr Ashley Gilbert was contracted as Group CFO from May 2016 to January 2017 whilst Mr David Binns (Group Financial Controller) became acting Chief Financial Officer from January 2017 until June 2017.

Shareholdings of KMP

The relevant interest of each KMP in the shares and options issued by the Company as at 31 March 2018 is as follows:

	Ordinary Shares	Options over Ordinary Shares
Mr Boon Wee Kuah	-	-
Mr Dominic Siu	-	-
Mr Peter Wallace	-	-
Mr Robin King	-	-
Mr Vincent Allegre	-	-

Options Granted as Part of Remuneration for the year Ended 31 March 2018

In 2018, no options were granted. No shares were issued to KMPs from the exercise of options during the period.

Loans to KMP and their related parties

There were no loans issued to KMP and their related parties during the financial period ending 31 March 2018.

Other transactions and balances with KMP and their related parties

There were no other transactions with KMP and their related parties during the financial period ending 31 March 2018.

END OF AUDITED REMUNERATION REPORT

MEETING OF DIRECTORS

During the financial period, six meetings of Directors (including Committees of Directors) were held. Attendances by each Director during the period were as follows:

Directors' Names	Directors' Meetings		Audit & Governance Committee Meetings	
	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended
Mr Boon Wee Kuah	6	6	-	-
Mr Peter Wallace	6	6	2	2
Mr Dominic Siu	5	5	2	2
Mr Nicholas Cocks	1	1	-	-
Mr Robin King	6	6	-	-

No remuneration committee meetings were held during the year.

Indemnification and Insurance of Directors and Officers

The Company indemnifies current and former Directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify certain senior Executives and Officers for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position in the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

The Company paid a premium, during the period in respect of a Directors' and officers' liability insurance policy, insuring the Directors of the Company, the Company Secretary, and all Executive Officers of the Company against a liability incurred while acting in the capacity of a Director, Secretary, or Executive Officer to the extent permitted by the Corporations Act 2001. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability and legal expenses' insurance contracts; as such disclosure is prohibited under the terms of the insurance contract.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Options

At the date of this report, there were no unissued ordinary shares of the Company under option.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the period.

Non-audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young Australia. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young Australia received or are due to receive the following amounts for the provision of non-audit services:

	\$
Tax compliance services	10,000
Special audits as required by jurisdictional regulators	10,000
	<u>20,000</u>

Auditor Independence Declaration

The lead auditor's independence declaration for the year ended 31 March 2018 has been received and can be found on page 18 of the Directors' Report.

Rounding of Amounts

The Company is an entity to which ASIC Corporation (Rounding in Financial /Directors' Reports) Instrument 2016/191 applies. Accordingly, amounts in the financial statements and Directors' report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors.



Boon Wee Kuah
Chairman

Dated this 29th day of June 2018

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Neptune Marine Services Limited, I state that:

1. In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 March 2018 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(b);
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

2. This declaration has been made after receiving the declarations required to be made to the Directors from the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 March 2018.



Boon Wee Kuah
Chairman

Dated this 29th day of June 2018

Auditor's Independence Declaration to the Directors of Neptune Marine Services Limited

As lead auditor for the audit of Neptune Marine Services Limited for the financial year ended 31 March 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Neptune Marine Services Limited and the entities it controlled during the financial year.



Ernst & Young



T G Dachs
Partner
Perth
29 June 2018

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2018

	Note	Consolidated	
		2018 \$000	2017 \$000
Revenue	6(a)	67,689	81,891
Other revenue	6(a)	33	80
Total revenue		67,722	81,971
Cost of sales and services rendered		(57,534)	(64,734)
Gross profit		10,188	17,237
Other income	6(b)	1,414	678
Marketing expenses		(88)	(110)
Occupancy expenses		(3,522)	(3,792)
Corporate, shared services and board expenses	7(d)	(2,762)	(2,396)
Business operating expenses	7(e)	(16,112)	(18,762)
Technical expenses		(276)	(288)
Finance costs	7(a)	(160)	(202)
Goodwill Impairment		(13,010)	-
Other expenses	7(f)	(9)	(286)
Loss before income tax		(24,337)	(7,921)
Income tax expense	8(a)	(5,652)	(309)
Net loss for the year		(29,989)	(8,230)
Earnings per share			
Basic loss per share	11	(0.488)	(0.134)
Diluted loss per share	11	(0.488)	(0.134)

The above consolidated income statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

		Consolidated	
		2018	2017
		\$000	\$000
Net loss for the year		<u>(29,989)</u>	<u>(8,230)</u>
Other comprehensive income / (loss)			
<i>Items that may be recycled subsequently through profit or loss:</i>			
Foreign currency translation	24	956	(1,819)
Net loss on cash flow hedges	24	<u>(60)</u>	<u>(184)</u>
		896	(2,003)
Total comprehensive loss for the year attributable to members of the parent		<u>(29,093)</u>	<u>(10,233)</u>

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2018

		Consolidated	
		2018	2017
	Note	\$000	\$000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	12	6,134	12,603
Trade and other receivables	13	11,616	16,556
Inventories	14	1,523	1,086
Other current assets	19	5,159	7,278
TOTAL CURRENT ASSETS		24,432	37,523
NON-CURRENT ASSETS			
Property, plant and equipment	16	16,167	17,320
Deferred tax assets	8	-	5,931
Intangible assets and goodwill	17	579	13,409
TOTAL NON-CURRENT ASSETS		16,746	36,660
TOTAL ASSETS		41,178	74,183
CURRENT LIABILITIES			
Trade and other payables	20	10,125	13,162
Current tax liability	8	420	451
Interest bearing loans and borrowings	21	203	309
Provisions	22	1,428	1,472
TOTAL CURRENT LIABILITIES		12,176	15,394
NON-CURRENT LIABILITIES			
Trade and other payables	20	248	333
Interest bearing loans and borrowings	21	32	465
Deferred tax liabilities	8	79	191
Provisions	22	85	149
TOTAL NON-CURRENT LIABILITIES		444	1,138
TOTAL LIABILITIES		12,620	16,532
NET ASSETS		28,558	57,651
EQUITY			
Contributed equity	23	273,540	273,540
Reserves	24	(14,829)	(15,725)
Accumulated losses		(230,153)	(200,164)
TOTAL EQUITY		28,558	57,651

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 31 MARCH 2018

	Ordinary Shares	Accumulated Losses	Foreign Currency Translation Reserve	Employee Equity Benefits Reserve	Hedge Reserve	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Consolidated						
Balance at 1 April 2016	273,540	(187,019)	(20,244)	6,127	395	72,799
Loss for the year	-	(8,230)	-	-	-	(8,230)
Other comprehensive income /(loss)	-	-	(1,819)	-	(184)	(2,003)
Total comprehensive loss for the year	-	(8,230)	(1,819)	-	(184)	(10,223)
Transactions with owners in their capacity as owners						
Dividend paid	-	(4,915)	-	-	-	(4,915)
Sub-total	-	(13,145)	(1,819)	-	(184)	(15,148)
Balance at 31 March 2017	273,540	(200,164)	(22,063)	6,127	211	57,651
Balance at 1 April 2017	273,540	(200,164)	(22,063)	6,127	211	57,651
Loss for the year	-	(29,989)	-	-	-	(29,989)
Other comprehensive income / (loss)	-	-	956	-	(60)	896
Total comprehensive loss for the period	-	(29,989)	956	-	(60)	(29,093)
Transactions with owners in their capacity as owners						
Dividend paid	-	-	-	-	-	-
Sub-total	-	(29,989)	956	-	(60)	(29,093)
Balance at 31 March 2018	273,540	(230,153)	(21,107)	6,127	151	28,558

The above statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018

		Consolidated	
		2018	2017
	Note	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		75,797	90,369
Interest received		33	80
Payments to suppliers and employees		(79,975)	(85,231)
Interest paid		(160)	(202)
Income tax paid / (refunded)		109	(76)
Net cash flows (used in) / derived from operating activities	27(a)	(4,196)	4,940
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		113	66
Purchase of property, plant and equipment		(1,723)	(903)
Repayment of loan from controlling entity		(48)	(79)
Net cash flows used in investing activities		(1,658)	(916)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends Paid		-	(4,915)
Repayment of borrowings	27(c)	(539)	(240)
Bank Guarantee		(27)	-
Receipt of deposits		-	30
Net cash flows used in financing activities		(566)	(5,125)
Net decrease in cash and cash equivalents held		(6,420)	(1,101)
Cash and cash equivalents at beginning of financial year		12,603	14,165
Net foreign exchange difference		(49)	(461)
Cash and cash equivalents at end of financial year	12	6,134	12,603

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Corporate Information

The financial report of Neptune Marine Services Limited (the Group) for the year ended 31 March 2018 was authorised for issue in accordance with a resolution of the Director's on 28 June 2018.

The financial report covers the Consolidated Group of Neptune Marine Services Limited and its controlled entities. Neptune Marine Services Limited is a listed for profit public company, incorporated and domiciled in Australia.

The nature of the operations and principal activities of the Group comprises: commercial diving services; hydrographic surveying, positioning and geophysical services; NDT, inspection and mechanical repair services; pipeline and subsea structure stabilisation and grouting; ROV services; subsea and pipeline engineering; manufacturing, assembly and testing services and dry underwater welding using the proprietary patented NEPSYS® technology.

Neptune's primary focus is the international oil and gas, marine and renewable energy offshore industries in the key regions of Australia, Asia, and the UK.

Note 2 Summary of Significant Accounting Policies**(a) Basis of Preparation**

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis except for derivative financial instruments.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

The accounting policies adopted are consistent with those of the previous year other than in respect of changes in accounting policies described in note 2(c).

Going Concern

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

As at 31 March 2018 the consolidated entity had net current assets of \$13.048 million (2017: \$22.751 million). At that date the consolidated entity had cash and cash equivalents of \$6.134 million (2017: \$12.603 million). For the year ended 31 March 2018 the consolidated entity has made a loss before tax of \$24.337 million (2017: \$7.921 million) which included goodwill impairment write downs of \$13.010 million (2017: \$0) and had negative operating cash flows of \$4.196 million (2017: \$4.940 million, positive operating cash flows).

Subsequent to year end, the ANZ multi option facility was renegotiated on the 11 May 2018 with an annual review date of 31 July with the next review date being 31 July 2018. The facility has a debt covenant that requires a net tangible worth of \$25.0 million to be held at all times. This covenant is calculated based on the exclusion of intangible assets being goodwill, prepayments, deferred tax assets and intangible assets. At 31 March 2018, Neptune's net tangible worth was \$27.2 million. At the date of signing these financial statements, management confirm that Neptune has not breached this net tangible worth covenant.

The ANZ multi option facility has an interchangeable limit of \$10 million between the following sub facilities: standby letter of credit or guarantee facility of \$10 million and a loan facility of \$5 million. The facility also includes a credit card facility of \$0.3 million. MTQ Corporation has provided a parent guarantee to support this facility.

MTQ Corporation Limited, being the ultimate holding company have undertaken to provide the necessary support to the Group which is limited to the amount of the guarantee provided for the ANZ facility in the event that the facility becomes unavailable to the Group within a period of 12 months from the date the financial statements are approved.

The Directors have reviewed the business outlook, the positive forecast cash flows and operating results for the 2018 financial year and the assets and liabilities of the Group. On this basis, it is the opinion of the Board of Directors that the consolidated entity will be able to continue as a going concern and that therefore, the basis of preparation is appropriate.

(b) Compliance with International Financial Reporting Standards (IFRS)

The financial report also complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Note 2 Summary of Significant Accounting Policies (continued)**(c) New Accounting Standards and Interpretations****(i) Changes in accounting policies, disclosures, standards and interpretations**

The accounting policies adopted are consistent with those of previous financial reporting period except as follows:

Reference	Title	Application date of standard	Application date for Group
AASB 2016-1	<i>Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses</i> This Standard makes amendments to AASB 112 <i>Income Taxes</i> to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 April 2017
AASB 2016-2	<i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107</i> The amendments to AASB 107 <i>Statement of Cash Flows</i> are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).	1 January 2017	1 April 2017
AASB 2017-2	<i>Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle</i> This Standard clarifies the scope of AASB 12 <i>Disclosure of Interests in Other Entities</i> by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with AASB 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> .	1 January 2017	1 April 2017

Furthermore, it has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business except for disclosure purposes and, therefore, no change is necessary to Group accounting policies.

Standards early adopted

The Group has not elected to early adopt any other new or amended Standards or Interpretations that are issued but not yet effective, as described below.

Note 2 Summary of Significant Accounting Policies (continued)**(c) New Accounting Standards and Interpretations (continued)***Standards issued but not yet effective*

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for Group
AASB 9, and relevant amending standards	<i>Financial Instruments</i>	AASB 9 replaces AASB 139 <i>Financial Instruments: Recognition and Measurement</i>. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other AASB 139 classification and measurement financial liability requirements have been carried forward into AASB 9, including embedded derivative separation rules & criteria for using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management.	1 January 2018	The Group has determined that the likely impact will not be material.	1 April 2018
AASB 15, and relevant amending standards	<i>Revenue from Contracts with Customers</i>	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 <i>Construction Contracts</i>, AASB 118 <i>Revenue</i>, AASB Interpretation 13 <i>Customer Loyalty Programmes</i>, AASB Interpretation 15 <i>Agreements for the Construction of Real Estate</i>, AASB Interpretation 18 <i>Transfers of Assets from Customers</i> and AASB Interpretation 131 <i>Revenue – Barter Transactions Involving Advertising Services</i>) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 <i>Leases</i>, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps: ▶ Step 1: Identify the contract(s) with a customer ▶ Step 2: Identify the performance obligations in the contract ▶ Step 3: Determine the transaction price ▶ Step 4: Allocate the transaction price to the performance obligations in the contract ▶ Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation	1 January 2018	The Group has determined that the likely impact will not be material.	1 April 2018

Note 2 Summary of Significant Accounting Policies (continued)**(c) New Accounting Standards and Interpretations (continued)**

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for Group
AASB 2016-5	<i>Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions</i>	This Standard amends AASB 2 <i>Share-based Payment</i> , clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: ► The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments ► Share-based payment transactions with a net settlement feature for withholding tax obligations ► A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.	1 January 2018	The Group has determined that the likely impact will not be material.	1 April 2018
AASB 2017-1	<i>Amendments to Australian Accounting Standards – Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments</i>	The amendments clarify certain requirements in: ► AASB 1 First-time Adoption of Australian Accounting Standards – deletion of exemptions for first-time adopters and addition of an exemption arising from AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration ► AASB 12 Disclosure of Interests in Other Entities – clarification of scope ► AASB 128 Investments in Associates and Joint Ventures – measuring an associate or joint venture at fair value ► AASB 140 Investment Property – change in use.	1 January 2018	The Group has determined that the likely impact will not be material.	1 April 2018
AASB Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.	1 January 2018	The Group has determined that the likely impact will not be material.	1 April 2018
AASB 16	<i>Leases</i>	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 <i>Leases</i> . The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.	1 January 2019	The Group is yet to assess the impact.	1 April 2019

Note 2 Summary of Significant Accounting Policies (continued)**(c) New Accounting Standards and Interpretations (continued)**

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for Group
Not yet issued by the AASB	<i>Annual Improvements to IFRS Standards 2015-2017 Cycle</i>	The amendments clarify certain requirements in: ► IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - previously held interest in a joint operation ► IAS 12 Income Taxes - income tax consequences of payments on financial instruments classified as equity ► IAS 23 Borrowing Costs - borrowing costs eligible for capitalisation.	1 January 2019	The Group is yet to assess the impact.	1 April 2019
AASB Interpretation 23, and relevant amending standards	<i>Uncertainty over Income Tax Treatments</i>	The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following: ► Whether an entity considers uncertain tax treatments separately ► The assumptions an entity makes about the examination of tax treatments by taxation authorities ► How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates ► How an entity considers changes in facts and circumstances.	1 January 2019	The Group is yet to assess the impact.	1 April 2019

(d) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group [as outlined in note 28(a)] for the financial year ended 31 March 2018 in the current year and prior year ended 31 March 2017.

Subsidiaries are all those entities over which the Group has power over the investee such that the Group is able to direct the relevant activities, has exposure or rights to variable returns from its involvements with the investee and has the ability to use its power over the investee to affect the amount of the investor's return. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date at which control is transferred out of the Group. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full.

Investments in subsidiaries held by the Group are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values [see note 2(e)].

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit disposal of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Note 2 Summary of Significant Accounting Policies (continued)**(d) Basis of Consolidation (continued)**

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to the profit or loss, or retained earnings, as appropriate.

(e) Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of AASB 139, it is measured in accordance with the appropriate AASB.

(f) Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(g) Foreign Currency Translation

The Group's consolidated financial statements are presented in Australian dollars, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

The functional currencies of the company's subsidiaries are as follows:

Australia	AUD
Asia and Middle East	USD
United Kingdom	GBP

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

All differences arising on settlement or translation of monetary items are taken to the income statement with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Note 2 Summary of Significant Accounting Policies (continued)**(g) Foreign Currency Translation (continued)**

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

(ii) Group companies

On consolidation the assets and liabilities of foreign operations are translated into AUD at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

(h) Revenue Recognition

Revenue is measured at fair value of the consideration received or receivable, net of returns, trade discounts or volume rebates. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue from the rendering of a service is recognised by reference to the stage of completion of a contract or contracts in progress at reporting date or at the time of completion of the contract and billing to the customer.

Stage of completion is measured by reference to labour hours and costs incurred to date as a percentage of total estimated labour hours and costs for each contract which is determined by a set quotation with the customer.

When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Licence fee revenue is recognised on an accruals basis when the Group has the right to receive payment under the relevant agreement and has performed its obligations.

(i) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers — being Neptune's senior management.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services
- Nature of the production processes
- Type or class of customer for the products and services
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

(j) Government Grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

When the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the income statement over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grants.

Note 2 Summary of Significant Accounting Policies (continued)**(k) Income Tax and Other Taxes**

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or in profit or loss.

Tax consolidation legislation

Neptune Marine Services Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2009.

The head entity, Neptune Marine Services Limited and the controlled entities in the tax Consolidated Group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax Consolidated Group.

In addition to its own current and deferred tax amounts, the Group also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax Consolidated Group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in note 8.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables, which are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and 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 part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Note 2 Summary of Significant Accounting Policies (continued)**(l) Property, Plant and Equipment**

Each class of property, plant and equipment is historical carried at cost less, where applicable, any accumulated depreciation and any accumulated impairment losses.

Plant and equipment

Plant and equipment (including construction in progress) is measured on at cost, net of any accumulated impairment losses. The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be generated from the use of the assets employment and/or the assets fair value less cost of disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, is depreciated on a diminishing value basis over their useful lives to the Consolidated Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Office furniture, equipment and software	25% - 33%
Leasehold Improvements	20% - 33%
Plant and equipment	20% - 40%
Leased Vehicles	20%
Remotely Operated Vehicles (ROV's) and Vessels	5-10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(m) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

(i) Group as a lessee

Finance leases that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

(n) Intangible Assets*Research and development*

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in technical expenses. During the period of development, the asset is tested for impairment annually.

Note 2 Summary of Significant Accounting Policies (continued)**(o) Financial Instruments – Initial Recognition and Subsequent Measurement***i) Financial assets**Initial recognition and Measurement*

Financial assets within the scope of AASB 139 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include cash and short-term deposits, and trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR (effective interest rate) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs for loans and in cost of sales or other operating expenses for receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

ii) Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

Note 2 Summary of Significant Accounting Policies (continued)**(o) Financial Instruments – Initial Recognition and Subsequent Measurement (continued)**

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

*iii) Financial liabilities**Initial Recognition and measurement*

Financial liabilities within the scope of AASB 139 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. The Group's financial liabilities include trade and other payables and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, described as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

(p) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials:

- Purchase cost on a first in, first out basis

Finished goods and work in progress:

- Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(q) Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating units (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated.

For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Note 2 Summary of Significant Accounting Policies (continued)**(q) Impairment of Non-Financial Assets (continued)**

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in expense categories consistent with the function of the impaired asset, except for a property previously revalued and the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the assets or CGUs recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually (as at 31 March) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 March either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

(r) Cash and Short-Term Deposits

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

(s) 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 an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at reporting date.

Wages, salaries, annual leave and non-monetary benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are due to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payment to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(t) Share-Based Payment Transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments of the Group (equity-settled transactions) and equity instruments of MTQ (cash settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense (Note 7c).

No expense is recognised for awards that do not ultimately vest, except for a transaction for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Note 2 Summary of Significant Accounting Policies (continued)**(t) Share-Based Payment Transactions (continued)**

When the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Cash-settled transactions

The monetary value to be awarded is determined and converted to a number of MTQ ordinary shares based on ruling market price which is defined as the closing market price after the financial year announcement. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date based on the MTQ share price at each reporting date, with changes in fair value recognised in employee benefits expense.

Note 3 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(i) Significant Accounting Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Impairment of non-financial assets other than goodwill and indefinite life intangibles

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 16.

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

(ii) Significant Accounting Estimates and Assumptions*Impairment of goodwill and intangibles with indefinite useful lives*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. An impairment loss of \$13.010 million was recognised in the current period in respect of goodwill (2017: \$0). The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives including a sensitivity analysis are discussed in Note 18.

Note 3 Significant Accounting Judgements, Estimates and Assumptions (continued)*Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with the assistance of an external valuer using an option pricing model. The related assumptions are detailed in Note 29. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Cash-settled transactions with employees are measured by reference to the fair value of the performance entitlements at the date at which they are granted. The accounting estimates and assumptions relating to cash-settled share-based payments would have impact on the carrying amount of liability and related expense within the next annual reporting period.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Depreciation charges are included in Note 16.

Note 4 Financial Risk Management

The Group's principal financial liabilities, other than derivatives, comprise trade and other payables, finance facilities, finance leases and hire purchases. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include trade and other receivables, and cash and short-term deposits that derive directly from its operations.

Risk Exposures and Responses

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy.

The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security.

At various times the Group entered into derivative transactions, principally forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. Derivatives classified as held for trading relating to forward currency contracts provided economic hedges and were based on limits set by the Board.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Group Finance department under the authority of the Board. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit allowances, and future cash flow forecast projections.

The Group holds the following financial instruments:

	Consolidated	
	2018	2017
	\$000	\$000
Financial Assets		
Cash and cash equivalents	6,134	12,603
Trade and other receivables	11,616	16,556
Total	17,750	29,159
Financial Liabilities		
Trade and other payables	10,373	13,495
Interest bearing loans and borrowings	235	774
Total	10,608	14,269

Note 4 Financial Risk Management (continued)**(i) Interest Rate Risk***Cash and cash equivalents*

The Group held its cash reserves on deposit and in cheque accounts during the period, which earned interest at rates ranging between 0% and 2.2% (2017: 0% and 1.7%) depending on account balances. Other than cash and other short term deposits, all the Group's financial assets are non-interest bearing.

Interest bearing liabilities

Interest bearing liabilities relate to Microsoft and Telstra finance arrangements of \$0.235 million (2017: \$0.774 million). Other than these finance arrangements, all the Group's financial liabilities are non-interest bearing.

The following sets out the Group's exposure to variable interest rate risk, including the effective average interest rate by maturity periods.

	Average Interest Rate	Consolidated 2018 \$000
Financial Assets		
Cash and cash equivalents	1.20%	6,134
Financial liabilities		
Other finance arrangements *	1.75%	(235)
		<u>5,899</u>

* Other finance arrangements include Microsoft Office and Telstra data storage financing

	Average Interest Rate	2017 \$000
Financial Assets		
Cash and cash equivalents	1.20%	12,603
Financial Liabilities		
Other finance arrangements	1.56%	(774)
		<u>11,829</u>

* Other finance arrangements include Microsoft Office and Telstra data storage financing.

The Group's cash reserves and interest bearing financial liabilities are exposed to Australian, Singapore and United Kingdom variable interest rate risk determined by local financial institutions.

As at 31 March 2018, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, post-tax profit/(loss) for the period would have been \$41,291 higher/lower (2017: \$82,799). This would be a result of higher/lower interest revenue on deposits and higher/lower interest expense on borrowings.

(ii) Foreign Currency Risk

The consolidated entity is exposed to foreign currency on sales, purchases, investments, and other borrowings that are denominated in a currency other than the functional currency. The currencies giving rise to this risk are primarily US Dollars and GB Pounds.

The Group uses foreign currency denominated cash and foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are designated as cash flow hedges and are entered into for periods consistent with foreign exposure of the underlying transactions, generally from one to 24 months. With regard to other foreign currency transactions, generally there is no need to manage currencies as there is a corresponding asset or liability which will offset any foreign currency risk. As at 31 March 2018, Neptune had no open derivative contracts (2017: none)

The financial assets and liabilities exposed to movements in the GBP are:

	Consolidated	
	2018 \$000	2017 \$000
Cash and cash equivalents	164	496
Trade and other payables	<u>(22)</u>	<u>(289)</u>
Net exposure	<u>142</u>	<u>207</u>

Note 4 Financial Risk Management (continued)

	Consolidated	
	\$000	\$000
The financial assets and liabilities exposed to movements in the USD are:		
Cash and cash equivalents	363	3,031
Trade and other receivables	809	3,418
Trade and other payables	(1,435)	(2,882)
Net exposure	(263)	3,567

As at 31 March 2018, the post-tax loss of the consolidated entity would change by the following amounts as a result of movements in different exchange rates:

- if the AUD had strengthened/weakened by 10% against the GBP, post-tax loss for the period would have been \$10,547 lower/higher (2017: \$16,973).
- if the AUD had strengthened/weakened by 10% against the USD, post-tax loss for the period would have been \$1,039,529 lower/higher (2017: \$239,271).

The breakdown of trade debtors by currency and ageing is included below (balances are in foreign denominated currency):

	Consolidated				
	Current	Past due but not impaired		Past due and impaired	Total
	\$000	\$000	\$000	\$000	\$000
Individual Currency	0 - 60 days	61 - 90 days	90 + days		
Australian Dollars	3,623	83	847	369	4,922
United States Dollars	1,945	(7)	1,051	1,346	4,336
Great British Pounds	1,261	91	177	-	1,530
Singapore Dollars	-	-	-	184	184
Malaysian Ringgit	35	18	14	-	67

	Consolidated				
	Current	Past due but not impaired		Past due and impaired	Total
	\$000	\$000	\$000	\$000	\$000
Australian Dollar Equivalent	0 - 60 days	61 - 90 days	90 + days		
Australian Dollars	3,623	83	847	369	4,922
United States Dollars	2,534	(9)	1,370	1,754	5,649
Great British Pounds	2,310	167	325	-	2,802
Singapore Dollars	-	-	-	181	181
Malaysian Ringgit	12	6	5	-	23
	<u>8,479</u>	<u>247</u>	<u>2,547</u>	<u>2,304</u>	<u>13,577</u>

(iii) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. Certain businesses within the consolidated entity are largely reliant on a small number of customers which increases the concentration of credit risk. However, the consolidated entity's customers are weighted towards large reputable clients.

Credit risk is managed through the credit approval process instigated by management at head office and by monitoring counterparties periodically.

(iv) Liquidity Risk

Liquidity risk is the inability to access funds, both anticipated and unforeseen, which may lead to the Group being unable to meet its obligations in an orderly manner as they arise.

The Group's liquidity position is managed to ensure sufficient funds are available to meet financial commitments in a timely and cost-effective manner. The Group is primarily funded through on-going cash flow, debt funding and equity capital raisings, as and when required.

Management regularly monitors actual and forecast cash flows to manage liquidity risk.

Note 4 Financial Risk Management (continued)**Financial Liabilities**

The table below reflects the timing of repayments of recognised financial liabilities at 31 March 2018. As such, the amounts may not reconcile to the balance sheet.

	Within the Year		1 to 5 years		Total	
	\$000		\$000		\$000	
	2018	2017	2018	2017	2018	2017
Financial Liabilities:						
Trade and sundry payables	10,125	13,162	248	333	10,373	13,495
Lease liabilities and other	203	309	32	465	235	774
Total Financial Liabilities	10,328	13,471	280	798	10,608	14,269

Fair value hierarchy

All financial instruments for which fair value is recognized or disclosed are categorized within the fair value hierarchy, described as follows, and based on the lowest level input that is significant to the fair value measurement as a whole:

- Quoted prices in active markets (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2); and
- Inputs that are not based on observable market data (Level 3).

The Group recognizes transfers between the levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between Level 1, Level 2 or Level 3 fair value measurements during the year ended 31 March 2018. The carrying value of other financial measurements not measured at fair value approximates their fair values.

Note 5 Operating Segments**Identification of Reportable Segments**

The Group has identified its operating segments based on the internal reports that are reviewed and used by Neptune's management team in assessing performance and in determining the allocation of resources. The operating segments are identified by management based on the nature of the services provided to customers. Discrete financial information about each of these operating businesses is reported to Neptune's management team on at least a monthly basis.

Types of Products and Services

The reportable segments are based on aggregated operating segments determined by the similarity of the products produced and sold and/or services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return. The Group comprises the two operating segments: Offshore Services and Engineering Services. Globally, the company has operational bases in Australia, South East Asia and the United Kingdom. The services provided to customers are on an offshore and engineering basis and can combine services from multiple regions.

Offshore Services

The Offshore Services division provides the oil and gas, marine and associated industries with a range of specialised services, including: commercial diving, inspection, repair and maintenance support, difficult and confined area access via rope access, tension netting and modular platforms, remotely operated vehicles (ROVs), subsea pipeline/cable stabilisation and protection, hydro graphic surveying, positioning and geophysical support, and project management.

Engineering Services

The Engineering Services division provides the oil and gas, marine, renewable energy and associated industries with a range of specialised services, including: subsea and pipeline engineering, fabrication, assembly and testing, refurbishment, installation, maintenance, the patented NEPSYS® dry underwater welding technology, and project management.

Accounting Policies and Inter-Segment Transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 2 and in the prior period, except as detailed below:

Inter-entity sales

Inter-entity sales are recognised based on an internally set transfer price. The price aims to reflect what the business operation could achieve if they sold their output and services to external parties at arm's length.

Corporate charges

Corporate charges comprise non-segmental expenses such as head office expenses and interest. Corporate charges are allocated to each business segment on a proportionate basis linked to segment revenue so as to determine a segmental result.

Note 5 Operating Segments (continued)

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

Unallocated items

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Finance costs
- Corporate, shared service and Board expenses
- Technical expenses
- Share-based payments
- Foreign exchange gain/ (loss)
- Deferred tax assets

Major Customers

The Group has a number of customers to which it provides its services. Approximately 43% (2017: 58%) arose from sales to the Group's five largest customers. These revenues were included in both the offshore and engineering services segments. No other single customer contributed 5% or more to the Group's revenue for both 2018 and 2017.

The following table presents revenue and loss information for reportable segments for the year ended 31 March 2018 and 31 March 2017.

	Continuing Operations					
	Engineering		Offshore Services		Total	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Revenue						
Sales to external customers	12,466	16,086	55,223	65,805	67,689	81,891
Intersegment sales	5,899	6,348	13,633	29,787	19,532	36,135
Other revenue	0	3	33	77	33	80
Total sales revenue	18,365	22,437	68,889	95,669	87,254	118,106
Internal sales elimination					(19,532)	(36,135)
Total revenue per the income statement					67,722	81,971
Result						
Segment result before impairments, asset write downs and items below:	4,150	599	(9,797)	(1,852)	(5,647)	(1,253)
Goodwill Impairment	(4035)	-	(8,975)	-	(13,010)	-
Segment results after impairment and before items below:	125	599	(18,782)	(1,852)	(18,657)	(1,253)
Reconciliation of segment net loss before tax to net loss before tax						
Finance costs					(160)	(202)
Unallocated Corporate, shared services and Board expenses					(5,300)	(6,131)
Share-based payments					19	162
Technical expenses					(276)	(288)
Foreign exchange loss					37	(209)
Net loss from continuing operations before tax per the income statement					(24,337)	(7,921)

Note 5 Operating Segments (continued)

	Continuing Operations					
	Engineering		Offshore Services		Total	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Segment assets						
Segment operating assets	8,417	7,460	32,761	48,234	41,178	55,694
Goodwill	-	3,573	-	8,985	-	12,558
Segment assets	8,417	11,033	32,761	57,219	41,178	68,252
Reconciliation of segment assets to the statement of financial position						
Deferred tax assets					-	5,931
Total assets from continuing operations per the statement of financial position					41,178	74,183

Entity Wide Information

Revenue from external customers by geographical locations is detailed below:

	Segment Revenues from External Customers		Carrying Amount of Total Assets	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Australia - country of domicile	38,845	53,864	20,087	42,283
Asia and Middle East	16,603	14,756	12,461	12,035
United Kingdom	12,241	13,271	8,630	19,865
	67,689	81,891	41,178	74,183

Note 6 Revenue & Other Income**Consolidated Group**

	2018 \$000	2017 \$000
a) Revenue		
— Rendering of services revenue from operating activities	67,689	81,891
— Other revenue - interest received	33	80
Total Revenue	67,722	81,971
b) Other Income		
— Insurance proceeds	256	121
— Profit on sale of property, plant and equipment	67	-
— Government Rebates	273	-
— Other income	818	557
Total Other Income	1,414	678

During the period several assets were subject to insurance claims and in line with the relevant provisions of AASB 116, any associated loss or damage of the asset, compensation subsequently received and any subsequent replacement have been disclosed as separate events. Refer to note 7(f) for details on loss on disposal of property, plant and equipment.

Note 7 Expenses**Consolidated Group**

	2018 \$000	2017 \$000
a) Finance costs:		
— Interest to unrelated parties	160	202
Total finance costs	160	202

Note 7		Expenses (continued)	
b)	Depreciation and amortisation:		
	(i) Included in cost of sales		
	— Depreciation	2,441	2,923
	(ii) Included in overhead expenses		
	— Depreciation	604	691
	— Amortisation	272	286
		876	977
	Total	3,317	3,900
c)	Employee benefit expenses:		
	i) Included in cost of sales		
	— salaries and wages	19,432	21,172
	— Superannuation	1,493	1,460
	— other	1,311	1,345
		22,236	23,977
	ii) Included in overhead expenses		
	— salaries and wages	9,895	11,529
	— Superannuation	779	904
	— employee entitlements	54	(183)
	— share based payments	(19)	(162)
	— other	1,555	1,741
		12,264	13,829
	Total	34,500	37,806
d)	Corporate, shared service and Board expenses		
	— Administrative costs	379	363
	— Personnel expenses	2,298	1,842
	— Depreciation & amortisation expense	85	191
	Total	2,762	2,396
e)	Business operating expenses		
	— Administrative costs	5,590	5,362
	— Personnel expenses	9,966	11,987
	— Depreciation & amortisation expense	556	551
	— Other	-	862
	Total	16,112	18,762
f)	Other expenses		
	— Loss on sale of property, plant and equipment	9	70
	— Other	-	216
	Total	9	286

Note 8		Income Tax		Consolidated Group	
(a)	Income Tax Expense	2018 \$000	2017 \$000		
	The major components of income tax expense are:				
	<i>Current income tax</i>				
	Current income tax expense	240	220		
	Adjustments in respect of current income tax of previous years	(413)	(111)		
	<i>Deferred tax</i>				
	Deferred income tax (benefit)/ expenses relating to origination and reversal of temporary differences	(106)	200		
	Prior period deferred tax asset derecognised	5,931	-		
	Income tax expense	5,652	309		
(b)	Amounts charged or credited directly to equity	2018 \$000	2017 \$000		
	<i>Current income tax relating to items charged / (credited) directly to equity</i>				
	Foreign exchange	154	(108)		
	Income tax expense reported in equity	154	(108)		
(c)	Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per statutory income tax rate				
	Accounting loss before tax	(24,337)	(7,921)		
	At Parent Entity's statutory income tax rate of 30% (2017: 30%)	(7,301)	(2,376)		
	Adjustments in respect of prior years	(147)	(721)		
	Foreign tax rate adjustment	699	77		
	Deferred tax not recognised	7,557	3,712		
	Withholding tax in non-Australian jurisdictions	76	18		
	Share based payments	(13)	(73)		
	Goodwill Impairment	3,903	-		
	Other	878	(328)		
	Aggregate income tax expense	5,652	309		
(d)	Recognised deferred tax assets / (liabilities)	2018 \$000 Current Tax	2018 \$000 Deferred Tax	2017 \$000 Current Tax	2017 \$000 Deferred Tax
	Opening Balance	(451)	5,739	(3,078)	5,942
	Charged to income statement	173	(5,825)	(109)	(200)
	Charged to equity	(154)	-	108	-
	Payments / (receipts)	(109)	-	76	-
	Other Adjustment	121	7	2,552	(3)
	Closing balance	(420)	(79)	(451)	5,739
	Amounts recognised in the statement of financial position:				
	Deferred tax asset		-		5,930
	Deferred tax liability		(79)		(191)
			(79)		(5,739)

Note 8 Income Tax (continued)**(d) Recognised deferred tax assets / (liabilities) (continued)**

	Statement of financial position	
	2018 \$000	2017 \$000
Deferred tax at 31 March relates to the following:		
<i>(i) Deferred tax liabilities</i>		
Property, Plant and Equipment	969	1,168
Prepayments	1	2
Foreign Exchange	-	95
Other	349	349
Gross deferred tax liabilities	1,319	1,614
Set off of deferred tax assets	(1,240)	(1,423)
Net deferred tax liabilities	79	191
<i>(ii) Deferred tax assets</i>		
Provisions	702	679
Foreign Exchange	54	104
Accruals	247	222
Transaction costs on equity issue	1	2
Unused tax losses	209	6,322
Other	27	24
Gross deferred tax assets	1,240	7,353
Set off of deferred tax assets	(1,240)	(1,423)
Net deferred tax assets	-	5,930

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities which relate to income taxes levied by the same tax authority.

(e) Tax losses

	2018 \$000	2017 \$000
Gross unused tax losses for which no deferred tax asset has been recognised:		
Australia	109,560	77,943
United Kingdom	17,890	18,038
US	29,717	29,779
Singapore	23,577	16,856
Qatar	708	691
Malaysia	318	279
Indonesia	357	0
Brunei	19	0
Total unused tax losses for which no deferred tax asset has been recognised	182,146	143,586

No deferred tax assets have been recognised in respect of these losses. If the Group were able to recognise all unrecognised deferred tax assets, there would be an income tax benefit recognised of \$50.741 million (2017: \$42.447 million).

(f) Unrecognised temporary differences

At 31 March 2018, there are no unrecognised temporary differences associated with the Group's investment in subsidiaries, as the Group has no liability for additional taxation should unremitted earnings be remitted (2017: \$Nil).

(g) Tax consolidation*(i) Members of the tax Consolidated Group and the tax sharing arrangement*

Neptune Marine Services Limited and its 100% owned Australian resident subsidiaries formed a tax Consolidated Group with effect from 1 July 2009. Neptune Marine Services Limited is the head entity of the tax Consolidated Group. Members of the Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the probability of default is remote.

Note 8 **Income Tax (continued)**
(g) **Tax consolidation (continued)**

(ii) Tax effect account by members of the tax Consolidated Group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the tax Consolidated Group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax Consolidated Group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes. The nature of the tax funding agreement is discussed further below.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax Consolidated Group.

Nature of tax funding agreement

Members of the tax Consolidated Group have entered into a tax funding arrangement. Under the funding agreement the funding of tax within the Group is based on a standalone basis. The tax funding arrangement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call.

Tax consolidation contributions / (distributions)

Neptune Marine Services Limited has recognised the following amounts as tax consolidation contribution adjustments:

	2018	2017
	\$000	\$000
Total decrease to tax payable of Neptune Marine Services Limited	1,240	1,579
Total decrease to intercompany assets of Neptune Marine Services Limited	1,240	1,579

(h) Taxation of financial arrangements (TOFA)

Legislation is in place which changes the tax treatment of financial arrangements including the tax treatment of hedging transactions. No impact has been recognised and no adjustments have been made to the deferred tax and income tax balances at 31 March 2018 (2017: \$0).

Note 9 **Auditors' Remuneration**

	Consolidated Group	
	2018	2017
	\$	\$
Amounts received or due and receivable by Ernst & Young Australia for:		
— An audit or review of the financial report of the entity and any other entity in the Consolidated Group	148,500	148,500
— Other services in relation to the entity and any other entity in the Consolidated Group		
— Tax compliance	10,000	50,036
— Special audits required by regulators	10,000	11,875
	<u>168,500</u>	<u>210,411</u>
Amounts received or due and receivable by related practices of Ernst & Young firm for:		
— Audit services provided by overseas Ernst & Young firm	171,307	181,313
— Tax services provided by overseas Ernst & Young firm	31,268	42,255
	<u>202,575</u>	<u>223,568</u>
	<u>371,075</u>	<u>433,979</u>
Amounts received or due and receivable by non-Ernst & Young audit firms for:		
— Taxation services	27,797	24,130
	<u>27,797</u>	<u>24,130</u>

Note 10 **Dividends**

	Consolidated Group	
	2018	2017
	\$000	\$000
Cash dividends on ordinary shares declared and paid		
Interim dividend for 2018: 0 cents per share (2017: 8 cents per share)	-	4,915
	<u>-</u>	<u>4,915</u>
Franking credit balance		
The amount of franking credits available for subsequent financial year are:		
Franking account balance as at end of the financial year at 30%	5,144	5,144

Note 11 Earnings Per Share

Basic earnings per share amounts are calculated by dividing net loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

		Consolidated Group	
		2018	2017
		\$000	\$000
(a)	Earnings used in calculating earnings per share		
	For basic loss earnings per share		
	Net loss attributable to ordinary equity holder of the parent	<u>(29,989)</u>	<u>(8,230)</u>
	For diluted loss earnings per share		
	Net loss attributable to ordinary equity holders of parent	<u>(29,989)</u>	<u>(8,230)</u>
		No.	No.
		Thousands	Thousands
(b)	Weighted average number of ordinary shares outstanding during the period used in calculating basic EPS	61,441	61,441
	Dilutive effect of options & retention rights	<u>-</u>	<u>100</u>
	Weighted average number of ordinary shares outstanding during the period used in calculating dilutive EPS	<u>61,441</u>	<u>61,541</u>

Note 12 Cash and cash equivalents

		Consolidated Group	
		2018	2017
		\$000	\$000
	Cash at bank and in hand	5,058	11,693
	Deposits	<u>1,076</u>	<u>910</u>
		<u>6,134</u>	<u>12,603</u>

Note 13 Current Assets - Trade and Other Receivables

		Consolidated Group	
		2018	2017
		\$000	\$000
	Gross trade receivables	13,577	17,140
	Allowance for impairment loss	<u>(2,304)</u>	<u>(817)</u>
		<u>11,273</u>	<u>16,323</u>
	Other receivables	<u>343</u>	<u>233</u>
		<u>11,616</u>	<u>16,556</u>

Refer to Note 4 on credit risk of trade receivables, which discusses how the Group manages and measures credit quality of trade receivables that are neither past due or impaired.

Note 13 Current Assets - Trade and Other Receivables (continued)**(a) Allowance for Impairment Loss**

Trade Receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

Movements in the provision for impairment loss were as follows:

	2018	2017
	\$000	\$000
Opening balance	817	516
Charge/(reversal) for the period	1,488	326
Foreign exchange differences	(1)	(25)
Closing balance	2,304	817

(b) Ageing of Receivables as at 31 March 2018

	Total	0-30	31-60	61-90	91+	91+
	\$000	days	days	days	days	days CI*
	\$000	\$000	\$000	\$000	\$000	\$000
2018	13,577	6,544	1,935	247	2,547	2,304
2017	17,140	7,351	5,426	1,102	2,444	817

* Considered impaired (CI)

(c) Related Party Receivables

There was \$1.092 million owed by related parties to Neptune at 31 March 2018 (2017: \$0.455 million). For further details in relation to related parties transactions, refer to note 28.

(d) Fair Value

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

(e) Foreign Exchange Risk

Details regarding foreign exchange exposure are disclosed in note 4.

Note 14 Current Assets – Inventories

	Consolidated Group	
	2018	2017
	\$000	\$000
Work in progress (at cost)	920	494
Finished goods (at cost)	603	592
Total inventories	1,523	1,086

Inventories recognised as an expense for the year ended 31 March 2018 totalled \$5.100 million (2017:\$5.305 million) for the Group. This expense has been included in the cost of sales line item as a cost of inventories.

Note 15 Information relating to Neptune Marine Services Limited

	2018	2017
	\$000	\$000
Current assets	60,172	70,443
Total assets	172,610	181,328
Current liabilities	(118,686)	(115,951)
Total liabilities	(144,083)	(139,996)
Issued capital	(273,540)	(273,540)
Accumulated losses	247,345	234,646
Profit appropriation reserve	(7,622)	(7,622)
Translation Reserve	11,568	11,521
Hedge Reserve	(151)	(210)
Employee Benefits Equity Reserve	(6,127)	(6,127)
	<u>(28,527)</u>	<u>(41,332)</u>
Profit / (loss) for the parent entity after impairment	<u>(12,699)</u>	<u>4,188</u>
Total comprehensive income / (loss) of the parent entity	<u>(12,699)</u>	<u>4,188</u>
Finance Lease Commitments		
Payable — minimum lease payments		
— not later than 12 months	215	325
— between 12 months and 5 years	<u>32</u>	<u>471</u>
Minimum lease payments	247	796
Less future finance charges	<u>(12)</u>	<u>(37)</u>
Present value of minimum lease payments	<u>235</u>	<u>759</u>
Operating Lease Commitments		
Payable — minimum lease payments		
— not later than 12 months	1,265	1,200
— between 12 months and 5 years	4,787	6,000
— more than 5 years	<u>2,298</u>	<u>2,380</u>
Minimum lease payments	<u>8,350</u>	<u>9,580</u>

(a) Guarantees

The parent has issued the following guarantees:

- Lease guarantees with ANZ Bank for the leased property of 404 Orrong Road, Welshpool, WA, 6106 (2018:1,532,300; 2017: \$1,532,300). This lease expires on 31 March 2025.
- No guarantees in relation to the contract performance are outstanding as at 31 March 2018 (2017:\$Nil).
- See Note 21 (c) for additional disclosure relating to bank facility

(b) Contingent Liabilities

The parent entity had no contingent liabilities at 31 March 2018 (2017: \$Nil).

(c) Tax Consolidated Group

Neptune Marine Services Limited and its 100% owned Australian resident subsidiaries formed a tax Consolidated Group with effect from 1 July 2009. Neptune Marine Services Limited is the head entity of the tax Consolidated Group. Members of the Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. Tax liability for this financial period has been disclosed in accordance with this agreement.

Note 16 Property, Plant and Equipment

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial period

	Office Furniture, Equipment & Software \$000	Leasehold Improvements \$000	Plant and Equipment \$000	Leased Vehicle \$000	ROV's & Vessels \$000	Construction in Progress \$000	Total \$000
Consolidated Group:							
Balance at 1 April 2016	2,029	1,606	9,430	243	6,205	559	20,072
Additions	241	-	36	-	-	1,076	1,353
Disposals	(10)	-	(89)	-	(33)	-	(132)
Transfers	310	17	793	-	182	(1,302)	-
Depreciation expense	(447)	(189)	(1,930)	(55)	(993)	-	(3,614)
Foreign Exchange	(25)	-	(140)	(7)	(185)	(2)	(359)
Balance at 31 March 2017	2,098	1,434	8,100	181	5,176	331	17,320
Cost	5,071	1,872	21,563	424	26,270	331	55,531
Accumulated depreciation & impairment	(2,973)	(438)	(13,463)	(243)	(21,094)	-	(38,211)
Net carrying amount	2,098	1,434	8,100	181	5,176	331	17,320
Balance at 1 April 2017	2,098	1,434	8,100	181	5,176	331	17,320
Additions	-	-	4	-	(1)	1,720	1,723
Disposals	(6)	-	(54)	-	(5)	-	(65)
Transfers	161	4	666	-	683	(1,517)	(3)
Depreciation expense	(431)	(167)	(1,520)	(41)	(884)	-	(3,043)
Foreign exchange	59	-	38	4	132	2	235
Balance at 31 March 2018	1,881	1,271	7,234	144	5,101	536	16,167
Cost	5,276	1,877	22,041	428	25,784	536	55,942
Accumulated depreciation & impairment	(3,395)	(606)	(14,807)	(284)	(20,683)	-	(39,775)
Net carrying amount	1,881	1,271	7,234	144	5,101	536	16,167

Impairment testing was performed at 31 March 2018 and no impairment has been recognised (2017: \$Nil). Refer to Note 18 for further details on the impairment testing undertaken.

Note 17 Intangible Assets and Goodwill

	2018 \$000	2017 \$000
Goodwill		
Opening balance	12,558	13,111
Foreign exchange differences	452	(553)
Impairment	(13,010)	-
Closing balance	-	12,558
Development costs		
Opening balance	851	1,137
Additions	-	-
Amortisation	(272)	(286)
Closing balance	579	851
Total Intangible Assets	579	13,409

Note 17 Intangible Assets and Goodwill (continued)**(a) Description of the Group's Intangible Assets and Goodwill***(i) Development costs*

Development costs are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over an eleven year period. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(ii) Goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

Note 18 Impairment Testing*(i) Description of the cash generating units and impairment methodology*

Property, plant & equipment (PPE) and Goodwill has been allocated to and is tested at the level of the cash generating units ("CGU") to which it relates. The recoverable amount of CGUs has been determined using a value in use or fair value less costs of disposal methodology as follows

CGU	2018 Methodology	2017 Methodology
Asset Integrity	Value in use	Value in use
Engineering	Value in use	Value in use
Diving	Value in use	Value in use
Stabilisation	Value in use	Value in use
Survey	Value in use	Value in use
ROV	Fair value less cost of disposal	Value in use
MAT	Fair value less cost of disposal	Value in use

(ii) Value in use methodology

The recoverable amount of the CGU has been determined using cash flow projections from the FY19 financial budget approved by the Board. Post FY19, the long term growth rate applicable to each CGU has been used to extrapolate the cash flows beyond the one year period. This long term growth rate is an average of 2.1% (2017: 2.3%) for the various jurisdiction and takes into consideration industry outlook and market conditions.

The post-tax, risk adjusted discount rates applied to CGU's specific cash flows in a value in use calculation are:

	2018	2017
Asset Integrity	11.34%	11.39%
Engineering	11.15%	10.97%
Diving	11.34%	11.39%
Stabilisation	11.73%	11.58%
Survey	11.41%	11.29%
ROV	NA	11.54%
MAT	NA	10.81%

The carrying amount of goodwill allocated to each CGU (prior to any impairment) was as per below

	Consolidated Group	
	2018	2017
Carrying amount of goodwill (pre impairment)	\$000	\$000
Asset Integrity	3,000	3,000
Engineering	4,035	3,583
Diving	5,975	5,975
	<u>13,010</u>	<u>12,558</u>

Note 18 Impairment Testing (continued)

Key assumptions used in value in use calculations for the cash generating units which are the most sensitive are detailed below:

Earnings – The forecast process was developed based on revenue expectations in the year built around existing customer contracts along with the potential to develop new markets and sustain growth. Gross margins were calculated on historical values and revenue mix within the various divisional segments throughout the Group with particular emphasis given to achieving consolidated earnings growth.

Discount rates - Discount rates reflect management's estimates of the time value of money and the risks specific to each unit that are not already reflected in the cash flows. In determining appropriate discount rates for each unit, regard has been given to the weighted average cost of capital of the entity as a whole adjusted for country and business risks specific to each unit.

Inflation rates – Inflation rates have been determined using the Consumer Price Index ("CPI") for the countries from which materials and services are sourced.

Growth rates – This considers the industry outlook and market conditions.

Based on the impairment testing undertaken, the total goodwill balance of \$13.010 million was written off in 2018 (2017: \$Nil).

(ii) Fair value less cost of disposal methodology

For 2018, the ROV and MAT CGUs have been tested for impairment using the fair value less cost of disposal methodology which is a change compared to 2017.

Management is of the view this change in approach was required to ensure the recoverable amount of the CGU's better reflected its true future economic benefits. To calculate the recoverable amount for each CGU, the fair value of the assets held by these CGUs was determined with reference to comparable recent sales data from reputable independent sources taking into account (amongst other things) the age, capabilities and condition of the assets. The fair value would be categorised as Level 1 of the fair value hierarchy. The key assumption which this valuations would be most sensitive to would be a change in market conditions within the Oil and Gas sector.

Based on the impairment testing undertaken using the fair value less cost of disposal, there was no impairment required for 31 March 2018 (2017: \$0).

Note 19 Other Assets

	Consolidated Group	
	2018	2017
	\$000	\$000
CURRENT		
Prepayments	801	1,055
Deposits	132	103
Accrued income	4,226	6,095
Other	-	25
	<u>5,159</u>	<u>7,278</u>

Note 20 Trade and Other Payables

	Consolidated Group	
	2018	2017
	\$000	\$000
CURRENT		
Unsecured liabilities		
Trade payables	4,032	5,579
Sundry payables and accrued expenses	5,671	7,502
Deferred rent	81	81
Deferred revenue	341	0
	<u>10,125</u>	<u>13,162</u>

Note 20 Trade and Other Payables (continued)

NON CURRENT

Sundry payables and accrued expenses

-

44

Deferred rent

248

289

248

333

(a) Fair Value

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value. Current payables are on 30-45 day payment terms.

Note 21 Interest-bearing Loans and Borrowings**Consolidated Group****2018 2017****\$000 \$000**

CURRENT

Microsoft and Telstra Financing

203

309

203

309

NON-CURRENT

Microsoft Financing and Telstra

32

450

Other

-

15

235

465

(a) Fair values

The carrying amounts of the Group's current and non-current borrowings approximate their fair value. The fair values have been calculated by discounting the expected future cash. The fair values have been calculated by discounting the expected future cash flows at prevailing market interest of 1.75% (2017: 4.12% to 5.24%) depending on the type of borrowing.

(b) Interest rate, foreign exchange and liquidity risk

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in Note 4.

(c) Bank facility

On 11 May 2018, Neptune renewed its ANZ Banking Facility. The key terms of this facility are:

- Interchangeable Limit of \$10 million between the following Sub-Facilities:
 - o Standby Letter of Credit or Guarantee Facility - Sub limit of \$10 million applies of which \$2.269 million is utilised at 31 March 2018 (2017: \$2.500m)
 - o Loan Facility (Floating Rate) - Sub limit of \$5 million applies of which no amount has been utilised at 31 March 2018 (2017: \$0 million)
- Credit Card Facility of \$0.3 million of which \$0.034 million was utilised at 31 March 2018 (2017: \$0.036 million)
- Annual review on 31 July of each year.
- All present and after acquired property of the below companies is held as collateral:
 - o Neptune Marine Services Limited (ACN 105 665 843)
 - o Neptune Asset Integrity Services Limited (ACN 087 823 514)
 - o Neptune Diving Services Pty Ltd (ACN 009 623 670)
 - o Neptune Geomatics Pty Ltd (ACN 108 312 787)
 - o Neptune Subsea Engineering Pty Ltd (ACN 123 801 856)
 - o Neptune Subsea Stabilisation Pty Ltd (ACN 128 500 747)
- Corporate Guarantee and Indemnity to the value of \$10.3 million has been provided by MTQ Corporation Limited.

Note 22 Provisions

	Consolidated Group	
	2018	2017
	\$000	\$000
CURRENT		
Provision for employee entitlements - Annual Leave	636	850
Provision for employee entitlements – Long Service Leave	792	622
Total provisions	<u>1,428</u>	<u>1,472</u>

	Consolidated Group	
	2018	2017
	\$000	\$000
NON- CURRENT		
Provision for employee entitlements - Long service leave	85	149
Total provisions	<u>85</u>	<u>149</u>

(a) Movements in provisions

There are no other non-employee related provisions.

(b) Nature and timing of provisions

Refer to note 2(s) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of this provision.

Note 23 Contributed Equity

	Consolidated Group	
	2018	2017
	\$000	\$000
61,441,291 (2017: 61,441,291) fully paid ordinary shares	<u>273,540</u>	<u>273,540</u>

(a) Ordinary Shares

	Consolidated Group	
	No.	\$000
At 1 April 2016	61,441,291	273,540
Movements during the current period	-	-
At 31 March 2017	<u>61,441,291</u>	<u>273,540</u>
At 1 April 2017	61,441,291	273,540
Movements during the current period	-	-
At 31 March 2018	<u>61,441,291</u>	<u>273,540</u>

(b) Options

For information relating to the Neptune Marine Services Limited employee option plan, including details of options issued, rights exercised and lapsed during the financial period and the options/rights outstanding at period-end. Refer to Note 29.

(c) Capital Management

The treasury, accounting and financial analysis functions within the corporate finance group have responsibility for managing the Group's financial activities including; capital and liquidity management, budgeting and forecasting, financial risk management, compliance and reporting in order to ensure that the Group delivers value to shareholders, fund operations and continue as a going concern.

This area of responsibility is governed by a number of Board and Executive approved policies and procedures. Core capital management objectives include the maintenance of a number of financial metrics within Board approved guidelines including liquidity, leverage and profitability ratios.

The tools and strategies employed to effectively manage the Group's capital structure include those associated with the management of liquidity, capital structure and asset utilisation and financial risk.

Note 23 **Contributed Equity**
(c) **Capital Management (continued)**

There are no externally imposed capital requirements.

There have been no changes in the strategy adopted by management to control the capital of the Group since the ratios for the year ended 31 March 2018 and 31 March 2017 are as follows:

	Note	Consolidated Group	
		2018	2017
		\$000	\$000
Total borrowings	21	235	774
Less cash and cash equivalents	12	(6,134)	(12,603)
Net (surplus)		(5,899)	(11,829)
Total equity		28,558	57,651
Total capital		22,659	45,822
Gearing ratio		(26)%	(26)%

Note 24 **Reserves**

	Consolidated Group	
	2018	2017
	\$000	\$000
Reserves		
Foreign currency translation reserve	(21,107)	(22,063)
Employee equity benefits reserve	6,127	6,127
Hedge reserve	151	211
	(14,829)	(15,725)
Movements:		
<i>Foreign currency translation reserve</i>		
Opening balance	(22,063)	(20,244)
Currency translation difference arising during the period	956	(1,819)
Balance at period end	(21,107)	(22,063)
<i>Employee equity benefits reserve</i>		
Opening balance	6,127	6,127
Balance at period end	6,127	6,127
<i>Hedge reserve</i>		
Opening balance	211	395
Net loss on cash flow hedge	(60)	(184)
Balance at period end	151	211

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Employee equity benefits reserve

The option reserve is used to record the value of share based payments provided to employees, including KMP, as part of their remuneration. Refer to note 29 for further details of these plans.

Hedge reserve

The hedge reserve is used to record gains and losses on hedges of the net investments in foreign operations.

Note 25**Commitments**

(a) Finance Lease Commitments	Consolidated Group	
	2018	2017
Payable — minimum lease payments	\$000	\$000
— not later than 12 months	215	340
— between 12 months and 5 years	32	471
Minimum lease payments	247	811
Less future finance charges	(12)	(37)
Present value of minimum lease payments	235	774

The finance leases relate to software and equipment financing and will be settled within 5 years. There are no restrictions placed upon the lessee by entering into these leases.

(b) Operating Lease Commitments	Consolidated Group	
	2018	2017
	\$000	\$000
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable — minimum lease payments		
— not later than 12 months	2,272	2,268
— between 12 months and 5 years	5,912	7,279
— more than 5 years	2,298	2,380
Minimum lease payments	10,482	11,927

All operating leases of the Group relate to the leasing of premises. All leases are payable monthly. These leases have an average life of between one and seven years. There are no restrictions placed upon the lessee by entering into these leases.

(c) Capital Expenditure Commitments

The Group had contractual obligations to purchase plant and equipment for \$0.176 million at balance date (2017: \$0.484 million). 2018 commitments are in relation to diving equipment in Australia and lifting frames in Asia and are expected to be settled within 12 months of balance sheet date.

Note 26**Contingencies****(a) Guarantees**

The Group has provided the following guarantees to clients, some of which are for satisfactory contract performance:

	2018	2017
	\$000	\$000
— Guarantees related to satisfactory contract performance	737	968
— Guarantees related to property leases	1,532	1,532
	2,269	2,500

Refer to Note 21(c) for further details on the key terms associated with Neptune's ANZ banking facilities.

Note 27 Cash Flow Information

	2018	2017
	\$000	\$000
(a) Reconciliation of net loss after tax to net cash flows from operations		
Loss after income tax	(29,989)	(8,230)
Cash flows excluded from loss attributable to operating activities:		
Non-cash flows in loss		
Depreciation/ amortisation	3,317	3,901
Goodwill impairment	13,010	-
Net (Profit)/Loss on disposal of plant and equipment	(58)	69
Share based payment (benefit)	(19)	(161)
Foreign exchange loss	(37)	216
Other non-cash movements	(598)	(86)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
Decrease in trade and other receivables	7,904	8,836
Decrease in prepayments and other current assets	306	959
(Increase) in inventories	(420)	(212)
Decrease in deferred tax assets and liabilities	5,817	311
(Decrease) in trade payables and accruals	(3,579)	(424)
(Decrease) in income taxes payable	(83)	(78)
(Decrease) / increase in provisions	233	(161)
Cash flow (used in) / from operations	<u>(4,196)</u>	<u>4,940</u>
(b) Bank Facilities		
ANZ Banking Facility	10,300	10,300
Bank Guarantees on Issue	(2,269)	(2,500)
Loan Facility	-	-
Credit Card Facility	(34)	(36)
Facility Available	<u>7,997</u>	<u>7,764</u>
Refer to Note 21(c) for further details on the key terms associated with Neptune's ANZ banking facilities.		
Refer to Note 26 for further details on Bank Guarantees on issue.		
(c) Movements in net cashflows used in financing activities		
The movement in interest bearing loans and borrowings is \$0.539 million (2017: \$0.240 million) which is all cash		

Note 28 Related Party Disclosures**(a) Subsidiaries**

The consolidated financial statements include the financial statements of Neptune Marine Services Limited and the subsidiaries listed in the following table.

	Country of	Percentage owned (%)*	
	Incorporation	2018	2017
Parent Entity:			
Neptune Marine Services Limited	Australia		
Subsidiaries of Neptune Marine Services Limited			
Neptune Diving Services Pty Ltd	Australia	100%	100%
Allied Diving Services Pty Ltd	Australia	100%	100%
Neptune Marine Services International Pty Ltd	Australia	100%	100%
Neptune Fabrication Services Pty Ltd	Australia	100%	100%
Neptune Subsea Engineering Pty Ltd	Australia	100%	100%
Neptune Asset Integrity Services Pty Ltd	Australia	100%	100%
Neptune Subsea Stabilisation Pty Ltd	Australia	100%	100%
Neptune Geomatics Pty Ltd	Australia	100%	100%
Neptune Offshore Services (PNG) Ltd	Papua New Guinea	100%	100%
Neptune Underwater Services (USA) LLC	United States of America	100%	100%
Neptune Delaware Holdings Inc.	United States of America	100%	100%
Neptune Subsea Inc.	United States of America	100%	100%
Neptune Scotland Holdings Ltd	United Kingdom	100%	100%
Neptune Offshore Services Ltd	United Kingdom	100%	100%
Neptune Deeptech Symons Ltd **	United Kingdom	NA	100%
Neptune Subsea Engineering Ltd	United Kingdom	100%	100%
Neptune ROV Services Holdings Ltd	United Kingdom	100%	100%
Neptune ROV Services Ltd	United Kingdom	100%	100%
Neptune Asia Holdings Pte Ltd	Singapore	100%	100%
Neptune Marine Pacific Pte Ltd	Singapore	100%	100%
Neptune Subsea Stabilisation Pte Ltd	Singapore	100%	100%
PT Neptune Subsea Stabilisation	Indonesia	100%	100%
Neptune Access IRM Pte Ltd	Singapore	100%	100%
Neptune Marine Offshore Pte Ltd	Singapore	100%	100%
Neptune Subsea Services Sdn Bhd	Malaysia	100%	100%
Neptune ROV Services Pte Ltd	Singapore	100%	100%
Submersible Technology Services Sdn Bhd	Malaysia	100%	100%
Submersible Technology Services (Middle East S.P.C)	Bahrain	100%	100%
Neptune Marine Subsea Services Sdn Bhd	Brunei	100%	100%

* Percentage of voting power is in proportion to ownership.

** This company was dissolved on 12 July 2016.

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.

Note 28 Related Party Disclosures (continued)**(b) Transactions with related parties**

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
	\$000	\$000	\$000	\$000
Entities with significant influence over the Group*:				
MTQ Corporation	-	386	905	143
Binder Group Pty Ltd	850	10	138	-
Premier Estate Pte Ltd	-	98	-	18
Premier Sea & Land Pte Ltd	-	37	-	5
MTQ Oilfield Services WLL	83	286	49	291
MTQ Engineering Pte Ltd	9	247	-	262
Total	942	1,064	1,092	719

*All entities are 100% owned by MTQ Corporation Limited.

(c) Ultimate parent

MTQ Corporation Limited is the ultimate parent entity and the parent of the Group is Neptune Marine Services Limited. See Note 21 (c) for further details on the guarantee associated with Neptune's ANZ banking facilities.

(d) Key management personnel (including Directors)

During the year, there were no related party transactions between the Company and its Key Management Personnel.

Compensation of key management personnel of the Group

	2018	2017
	\$000	\$000
Short-term employee benefits	1,313	1,456
Post-employment benefits	108	119
Share-based payments	(13)	(137)
Total compensation paid to key management personnel	1,408	1,438

(e) Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Any outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash.

Note 29 Share-Based Payments

The following share-based payment arrangements existed at 31 March 2018:

Incentive Option Scheme

The Company operates an ownership-based incentive scheme known as the Neptune Marine Services Limited Incentive Option Scheme ("Scheme"), which was approved by shareholders at a general meeting held on 25 November 2005.

The Scheme provides for employees, Executive Director and others involved in the management of the Company to be offered options for no consideration. Each option is convertible to one ordinary share. The Board may determine the exercise price of the options in its absolute discretion. Subject to the ASX Listing Rules, the exercise price may be nil but to the extent the Listing Rules specify or require a minimum price, the exercise price in respect of an offer made must not be less than any minimum price specified in the Listing Rules. Options issued under the Scheme that have not lapsed may be exercised at any time up to the date which is 5 years after the date of the grant of the options, or such other expiry date as the Board determines in its discretion at the time of grant. There are no voting or dividend rights attached to the options.

Options may not be offered under the Scheme if the total number of shares which would be issued where each option is accepted, together with the number of shares in the same class or options to acquire such shares issued pursuant to all employee or executive share schemes during the previous five years, exceeds 5% of the total number of issued shares in that class as at the date of the offer.

Employees are entitled to the options if they remain employed with the Company over the service period which is determined at the date of grant on an individual basis.

All options granted to key management personnel are ordinary shares in Neptune Marine Services Limited which confer a right of one ordinary share for every option held.

Note 29 Share-Based Payments (continued)

The number and weighted average exercise price (WAEP) of options is as follows:

	Consolidated Group*			
	2018		2017	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at the beginning of the period	100,000	15.00	100,000	15.00
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Expired during the period	(100,000)	15.00	-	-
Outstanding at the end of the period	-	-	100,000	15
Exercisable at the end of the period	-	-	100,000	15

The options outstanding at 31 March 2017 expired on 29 May 2017. No options were granted during the period. In 2010 options issued were calculated by using a Binomial option pricing model applying the following inputs:

Date options issued	1/08/2010
Weighted average exercise price	\$0.58
Weighted average life of the option (years)	5.00
Underlying share price	\$0.28
Expected share price volatility	71%
Risk free interest rate	4.50%

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future tender, which may not eventuate. The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

(a) MTQ Share Plan

MTQ Corporation Limited ("MTQ"), Neptune's ultimate parent entity, operates a compensation scheme which awards fully paid shares to the participants of the scheme, when and after pre-determined performance conditions are met. The purpose of the scheme is to motivate and retain employees including employees of subsidiary companies.

Neptune's Segment 1 employees (CEO and CFO) are participants in the scheme. Other employees are also included in the scheme. Under the scheme, each participant has a maximum award size set as a percentage of the participant's annual base salary. Meeting all performance targets shall attract a payout of 60% of the maximum award size. Performance exceeding the set performance shall attract an increase of the award size. Performance short of the performance targets shall attract a decrease. At the end of the Performance Year, each target is evaluated by the Remuneration Committee. Remuneration Committee then determines if performance targets have been satisfied and if so the extent to which they have been satisfied.

The fair value of the shares to be granted is estimated at grant date to be a monetary value based on the estimated probability of employees' meeting performance targets, taking into account the terms and conditions upon which the shares are to be granted. Subsequently, the monetary value to be awarded is determined and converted to number of MTQ ordinary shares based on ruling market price which is defined as the closing market price after the financial year announcement. The amount of MTQ Shares awarded shall be delivered in three equal tranches at the end of the Performance Year. The vesting date for the first instalment of the shares awarded for a performance year is twelve month after the grant date. The employees must still be employed by the company at these dates to receive the shares.

For the 2014 and 2015 MTQ share plan that has been awarded, the monetary value has been determined by the Remuneration Committee after assessing whether the performance targets have been satisfied. For the 2016 and 2017 MTQ share plan, no shares were awarded.

Note 30 Corporate Governance

Under ASX Listing Rule 4.10.3, the Company's Corporate Governance Statement can be located at the URL on the Company's website being www.neptunems.com

Note 31 Subsequent Events

There have been no events after balance sheet date that have a material impact on the financial statements.

Independent auditor's report to the members of Neptune Marine Services Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Neptune Marine Services Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 March 2018, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 March 2018 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Impairment of non-current assets

Why significant

As disclosed in Notes 16 and 17 to the financial statements, the Group had property, plant and equipment of \$16.2 million, and other intangible assets of \$0.6 million at 31 March 2018. The Group recognised an impairment charge of \$13.0 million to fully impair goodwill during the year.

The impairment of non-current assets was considered a key audit matter as the impairment testing process is complex and judgmental and is based on assumptions and estimates that are affected by expected future performance and market conditions. Key assumptions, judgements and estimates used in the formulation of the Group's impairment of non-current assets include future cash flow forecasts, discount rates, growth rates and inflation rates as disclosed in Note 18.

How our audit addressed the key audit matters

Our audit procedures included the following:

- ▶ We evaluated the Group's future cash flow forecasts included in the impairment model and assessed the underlying assumptions, methodologies and conclusions reached by the Group, in particular, those relating to the determination of cash generating units ("CGUs"), forecast cash flows and inputs used to formulate them. This included assessing, in conjunction with our valuation specialists, the discount rates and growth rates with reference to market data (where available), external research, and historical performance.
- ▶ We considered the Board of Directors meeting minutes and various operational reports and plans in order to understand the future plans of the Group and whether there was any potential contradictory information compared to the assumptions applied in the impairment model.
- ▶ We performed sensitivity analyses to ascertain the extent changes in key assumptions could lead to alternative conclusions.
- ▶ We tested the mathematical accuracy of the impairment models.
- ▶ We focused on the adequacy of the financial report disclosures regarding those assumptions, to which the Group's assessment of impairment of non-current assets are most sensitive, being those that would have the most significant effect on the determination of the recoverable amount.

2. De-recognition of deferred tax assets

Why significant

As disclosed in Note 8 to the financial statements, the Group derecognised deferred tax assets of \$5.9 million relating to carried forward tax losses, as the recognition criteria were no longer considered to be met.

This was considered a key audit matter as the determination of the quantum, likelihood and timing of the realisation of carried forward tax losses is judgmental.

How our audit addressed the key audit matters

We examined the analysis of the recoverability of the deferred tax assets based on the Group's expected future taxable income principally by performing sensitivity analyses and evaluating and testing the key assumptions used to determine whether de-recognition was appropriate.

3. Recoverability of trade and other receivables and accrued income

Why significant

As disclosed in Note 13 to the financial statements, the Group had \$11.6 million trade and other receivables as at 31 March 2018, against which a \$2.3 million provision for doubtful debts has been recognised. Additionally, as disclosed in Note 19, the Group has recognised accrued income receivable amounting to \$4.3 million at balance date.

This was considered a key audit matter as the likelihood of recoverability of trade and other receivables and accrued income, is judgemental.

How our audit addressed the key audit matters

Our audit procedures included the following:

- ▶ For a sample of trade receivables we obtained external confirmation of the balance owed or examined whether the receivable had been collected subsequent to year end
- ▶ We obtained evidence that the goods and services were provided to support accrued income
- ▶ Considered the reasonableness of the accrued income recognised at balance date based on our understanding of current and closed projects
- ▶ We evaluated management's assessment of the recoverability of trade and other receivables and accrued income
- ▶ We evaluated the provision for doubtful debts to determine whether aged amounts that are past due have been appropriately provided for.

4. Going concern

Why significant

The Group reported a net loss for the year of \$29.9 million and cash outflows from operating activities of \$4.2 million.

Our consideration of the Directors' assessment of the Group's ability to continue as a going concern, which is set out in Note 2 to the financial statements, was considered a key audit matter as the assessment is dependent on significant assumptions associated with the timing and quantum of future cash flows and the availability of undrawn finance facilities.

How our audit addressed the key audit matters

Our audit procedures included the following:

- ▶ We examined management's forecast cash flows which support the basis of the Director's disclosure in Note 2 over going concern
- ▶ We assessed the key assumptions within these forecasts and performed sensitivity analyses to ascertain the extent to which changes in relation to forecasted revenue and operating expenditure could lead to alternative conclusions
- ▶ We tested the mathematical accuracy of the cash flow model
- ▶ We agreed the terms and conditions and the limits of the borrowing facilities to the disclosures in Note 21 to the facility agreement and drawn amount of the borrowing facilities to confirmation we received directly from the financial institution
- ▶ We considered the adequacy of the financial report disclosures relating to the going concern assumption
- ▶ We have reviewed the letter of financial support the Directors received from the ultimate parent, MTQ Corporation Limited and considered their ability to meet the undertaking in the event that it is required.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Auditor's responsibilities for the audit of the financial report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 9 to 15 of the directors' report for the year ended 31 March 2018.

In our opinion, the Remuneration Report of Neptune Marine Services Limited for the year ended 31 March 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.



Ernst & Young



T G Dachs
Partner
Perth
29 June 2018

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australian Securities Ltd in respect of listed public Companies only.

Shareholding

a) Distribution of shareholders category (size of holding)

Range	Total Holders	Shares	% of Issued Capital
1 - 1,000	798	270,944	0.44
1,001 - 5,000	284	667,498	1.09
5,001 -10,000	58	425,438	0.69
10,001 – 100,000	42	1,107,284	1.80
100,001 – 9,999,999,999	8	58,970,127	95.98
Rounding			
Total	1,190	61,441,291	100%

Unmarketable Parcels	Minimum Parcel Size	Holders	Units
Minimum \$500.00 parcel at \$0.95 per unit	820	731	209,306

b) The name of the substantial shareholder listed in the holding Company's register as at 31 May 2018 is:

Shareholder	Number Ordinary
Blossomvale Investment Pte Ltd	53,525,826

c) Voting Rights

The Voting rights attached to each class of equity security are as follows:

Ordinary Shares

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Redeemable and Converting Share Preference

These shares have no voting rights.

d) 20 Largest Shareholders – Ordinary Shares

As at 31 May 2018:

	Shareholder	No. Shares	% Held
1.	BLOSSOMVALE INVESTMENTS PTE LTD <BLOSSOMVALE NMS GO A/C>	53,525,826	87.11
2.	CITICORP NOMINEES PTY LIMITED	4,617,016	7.51
3.	MR DAVID COLIN HUSBAND + MS NINA DONS LANDES	239,567	0.39
4.	NOEL KENNEDY SMITH	180,000	0.29
5.	MR GARY LESTER HANIKERI	148,334	0.24
6.	MERRILL LYNCH AUSTRALIA NOMINEES	133,334	0.22
7.	LYNETTE SUSAN PRESTON	126,050	0.21
8.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	78,813	0.13
9.	MRS LEANNE BLAKE + MR TREVOR ROY BLAKE <BLAKETT SUPER FUND A/C>	69,497	0.11
10.	MRS ALLISON JUDITH MCGREGOR + MR STEPHEN PAUL LACE	65,000	0.11
11.	MR BERNARD MELVILLE KENT <EST JEAN MOIRA KENT A/C/>	58,687	0.10
12.	J MCCARTHY & CO PTY LTD	56,734	0.09
13.	BUZPASS PTY LTD	48,500	0.08
14.	MR CZESLAW CZAPLA + MR ZDZISLAW CZAPLA	40,000	0.07
15.	MRS JENNIFER SUE KRUGER	36,800	0.06
16.	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	34,238	0.06
17.	HARDRESS PTY LTD <THE HARDRESS SUPER FUND A/C>	33,834	0.06
18.	DAVID JOHN MICHAEL HART	33,334	0.05
19.	MONEX BOOM SECURITIES (HK) LTD <CLIENTS ACCOUNT>	30,627	0.05
20.	MR PHILIP ALEXANDER STEEL	30,000	0.05
Top 20 holders of ORDINARY FULLY PAID SHARES		59,586,191	96.99%