

NEPTUNE MARINE SERVICES LIMITED AND CONTROLLED ENTITIES

ABN: 76 105 665 843

**Annual Financial Report for the Year Ended
30 June 2010**

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CORPORATE INFORMATION

Registered Office

Neptune Marine Services Limited
Level 16, 140 St George's Terrace
Perth Western Australia 6000

Principal Place of Business

Neptune Marine Services Limited
Level 16, 140 St George's Terrace
Perth Western Australia 6000

DIRECTORS REPORT

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2010.

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

Mr Ross Kennan
Mr David Agostini
Mr Geoff Newman
Mr Robert Scott
Mr Christian Lange

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

Company Secretary

Mr Gabriel Chiappini was appointed company secretary on 20 August 2007. He is currently company secretary for a number of ASX listed companies. Mr Chiappini is a Chartered Accountant and member of the Australian Institute of Company Directors. He graduated from Edith Cowan University in 1990 with a Bachelor of Business majoring in Finance and Accounting and has worked predominantly in London and Perth with experience in the property, investment banking and biotechnology sectors.

Principal Activities

The principal activities of the consolidated group comprise:

The provision of DP construction support vessels; dry underwater welding using the group's patented NEPSYS® technology; subsea and pipeline engineering; offshore asset integrity management; ROV services; hydrographic surveying, positioning and geophysical services; commercial diving; specialist fabrication; pipeline stabilisation and grouting; NDT and inspection services; testing and assembly services; and end to end project management.

These services are provided via the two distinct divisions of Offshore Services and Engineering Services to the offshore oil and gas, marine and renewable energy industries, and are regionally spread between:

- Australia, New Zealand and Papua New Guinea (ANP)
- Europe, the Mediterranean and Africa (EMA)
- Asia and the Middle East (AME)
- North and South America (NSA)

The group's primary focus is the offshore oil and gas sector where its comprehensive suite of subsea services can be tailored to provide solutions for both new 'greenfield' construction projects and existing 'brownfield' inspection, repair and maintenance (IRM) projects.

The flexibility of the group's service offering provides clients with the opportunity to either utilise individual services or combine numerous services for an engineered solution to their specific project requirements.

Operating Results

The consolidated profit of the group after providing for income tax amounted to \$849,000 (2009: \$20,971,000).

Dividends Paid or Recommended

No dividend has been declared or paid by the Company to the date of this report and no dividend is proposed in respect of the year ended 30 June 2010.

Review of Operations

The global economic environment combined with the high incidence of client project delays and deferrals across a number of sectors in which Neptune operates had a significant impact on profitability in 2010.

Results were largely impacted by the downturn in two of the company's key markets. Revenues in the USA were down 79% year-on-year largely as a result of the sharp decline in shelf drilling and IRM activities. In Asia, revenues were down 67% due to a general slowdown in subsea activities which resulted in an oversupply in the vessel IRM markets.

In Australia, the company's revenues improved to \$113.216 million (up 37% year-on-year) on the strength of activities on the North West Shelf and Timor Sea. Margins however were negatively impacted by increased competition from a slower Asia, as well as losses attributed to the Pluto Project.

Offshore Services

Consistent levels of activity within the Australian and Middle Eastern markets were offset by significantly reduced demand and activity in the US and Asian markets, the result of which were revenues totalling \$94.366 million for the year.

The capabilities within the division were bolstered during the period via the acquisition of Aberdeen based Submersible Technology Services (Holdings) Limited ("STS"), a leading provider of remotely operated vehicle (ROV) and survey support services to the offshore oil and gas industry

The acquisition represented a significant opportunity for Neptune to expand its well established UK presence and immediately accelerated Neptune's scale and geographic spread.

The diving, asset integrity, hydrographic survey and subsea stabilisation businesses were consistent performers throughout the year, particularly in the Australasian region, where they were engaged on a range of offshore oil and gas industry projects.

Headlining the activity of the division was Neptune's involvement in the Gorgon LNG development - Australia's largest resources development project. An initial diving, survey and vessel scope was extended to include additional support services, the result of which was Neptune's involvement in the project throughout 2H10; an involvement that continues into the new 2011 fiscal year.

In the UK, Neptune's hydrographic survey capabilities were recognised with a contract award from one of the world's leading oil and gas producers for a new field development, offshore Libya. Providing survey and positioning support to an initial three well drilling program, with an option for an additional three wells, the contract is consistent with Neptune's strategic focus on identifying and securing new opportunities in the deep water sector and securing longer term projects that deliver more stable revenues.

Engineering and Project Management Services

As was the case with Offshore Services, the Engineering Services division was also susceptible to the adverse market conditions during the period, the result of which were revenues totalling \$85.04 million. While the amount of work secured was consistent, the increased incidence of margin erosion and discounting, as well as the depreciation of the UK Pound Sterling, had an impact on profitability.

From the design and manufacture of specialist subsea equipment for international oil and gas projects to the provision of subsea engineering consultancy services and an extended fabrication scope on the Pelamis Wave Power Eon Project, Neptune's engineering, fabrication and associated capabilities were utilised by a range of new and repeat customers, many of which are leading operators within the global oil and gas industry.

In the North Sea, Neptune's dry underwater welding technology NEPSYS® proved itself as a viable alternative to conventional maintenance practices and achieved a new benchmark with qualification to -70 metres (-230 feet) following a program of research and development testing at the National Hyperbaric Centre in Aberdeen, Scotland.

Project Integration

Neptune's niche capability as a provider of customised, client specific solutions from both offshore and engineering divisions resulted in the headline project award of the \$20 million subsea inspection contract for Qatargas, one of Qatar's leading producers of LNG.

The three year contract involves the inspection of Qatargas platforms, offshore pipelines and subsea connection facilities utilising Neptune's vessel, ROV, hydrographic survey, diving and pipeline stabilisation capabilities.

Similarly in the Timor Sea, Neptune's vessel, ROV, survey and stabilisation services were combined to provide a program of pipeline and platform inspection surveys on the Bayu-Undan Gas Recycle Facility operated by ConocoPhillips Australia Pty Ltd.

Financial Position

The net assets, including goodwill of \$161,726,000, of the consolidated group have increased to \$221,194,000 at 30 June 2010 from \$181,933,000 at 30 June 2009. This increase is a result of the following factors:

- **Equity raising in July 2009**
 - Neptune Marine Services Limited closed an oversubscribed Share Purchase Plan on 22 July 2009. Applications were received for approximately \$26.485 million or 52.99 million shares. As announced on 5 June 2009, the SPP was to be capped at \$10 million, with the flexibility to accept oversubscriptions. In accordance with the terms of the SPP, the shares applied for in each application were scaled back on a pro-rata basis by 50% regardless of the amount applied for. Accordingly, \$13.330 million was refunded back to the investors.
 - Neptune Marine Services Limited held its Extraordinary General Meeting on 13 July 2009 wherein shareholders voted overwhelmingly in favour of the tranche 2 placement of 56.0 million shares or \$28.0 million to institutional and sophisticated investors as part of its A\$40 million capital raising announced on 5 June, 2009. Capital raised via the placement would be used to fund Neptune's ongoing growth and development and will focus on corporate acquisitions, new asset acquisitions and continued organic growth of Neptune's existing operations.
- the purchase of a new business, Submersible Technology Services (Holdings) Limited, through the combination of equity and debt raising in the company during the year.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

(i) The purchase of Submersible Technology Services (Holdings) Limited for \$31.828 million (Note 32) included in the Neptune Group.

(ii) The issuing of shares in Neptune Marine Services Limited as per above for \$41.155 million

(iii) Loans & borrowings

- At 30 June 2010, Neptune had a term loan \$20.1 million from the National Australia Bank at bank bill rate plus a margin of 1.9%. The loan was used to finance the purchase of the Nor Sea vessel. The loan is secured through registered mortgages over two vessels known as the Trident and ROV Supporter, as well as fixed and floating charges over the assets of the Neptune Companies. The loan is repayable by instalments of \$0.7 million per quarter until 30th September 2011. The remaining portion of the loan is payable as a balloon payment at maturity. During the year the company repaid \$2.8 million of the facility.
- At 30 June 2010, Neptune had a term loan GBP 1.75 million from the National Australia Bank at overseas currency rate plus margin of 2.5%. The loan was used to fund the purchase of Neptune Subsea Engineering Ltd, a UK based acquisition. The loan is secured through fixed and floating charges over the assets of the Neptune Companies. The loan is repayable by instalments of GBP 0.25 million per quarter until 31 December 2011. The remaining portion of the loan is payable at maturity. During the year the company repaid GBP 1 million against this loan.
- At 30 June 2010, Neptune borrowed \$6.3 million under an existing short term debtor facility from the National Australia Bank at lending indicator rate plus a margin of 1.5%. The loan is repayable by 30th September 2011. During the year the company repaid \$1.09 million towards this facility.
- During the financial year USA Subsidiary US Underwater Services fully repaid their term loan of USD 2.285 million with Fifth Third Bank.
- On 20 November 2009, Neptune borrowed GBP 15 million under a bridging facility from the National Australia Bank at bank bill rate plus a margin of 4.69. The loan was used to finance the purchase of Submersible Technology Services Ltd, a UK based acquisition. The loan is secured through fixed and floating charges over the assets of the Neptune Companies. None of this loan was repaid during the financial year. Since balance date, the bridging facility's repayment date was extended to 15 October 2010. The company is currently in negotiations with its bankers, National Australia Bank to refinance its facilities.
- As at 20 November 2009, the term loan and shareholder notes of Submersible Technology Services Limited amounting to GBP3.978 million were paid in full.

After Balance Date Events

Since the end of the financial year, the directors are not aware of any matters or circumstances not otherwise dealt with in this report of the financial statements, that has significantly or may significantly affect the operations or state of affairs of the consolidated entity in future years.

The company is currently in negotiations with its bankers National Australia Bank (NAB) to refinance the GBP 15 million bridging facility beyond 15 October 2010. The bank has confirmed its intention to agree to continue to extend the maturity date of this facility to allow for completion of refinancing or re-capitalisation.

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 Ross Kennan	523,451	-
Mr David Agostini	161,822	200,000
Mr Geoff Newman	58,488	-
Mr Robert Scott	143,594	-
Mr Christian Lange	559,267	7,000,000

Future Developments, Prospects and Business Strategies

To further improve the consolidated group's profit and maximise shareholder wealth, the following strategies will continue to be implemented:

(i) Continue to focus on and expand the integrated services model of the Neptune Group, to include the newly acquired businesses and NEPSYS® technology.

(ii) Continue to build strong, long term relationships with blue chip customers, EPIC contractors and oil and gas operators above and beyond the relationships that already exist with these valuable clients.

These strategies, together with accelerating international exposure of the Neptune Group, expanding service and regional capability, continued selected acquisitions in both Australia and internationally, and the continued growth and expansion of the NEPSYS® technology internationally pave the way for the Neptune Group to become a significant provider of services within the oil and gas industry.

Environmental Requirements and Performance

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

Information on Directors

Mr Ross Kennan	— Chairman
Qualifications	— Fellow, Institution of Engineers, Australia; Fellow, Australian Institute of Company Directors; Member (Retired), Royal Australian Institute of Chemists; Chartered Engineer, Chartered Chemist (Retired).
Experience	<p>— Mr Kennan, aged 71, has had an accomplished international career, most notably as Vice President and SBU Co-chair for international diversified technology and manufacturing company, Honeywell Inc, where he spent 26 years in Senior Executive positions. Mr Kennan has over 17 years of international experience which enable him to provide strategic advice to further support Neptune Marine's continual global growth.</p> <p>Mr Kennan currently chairs the Human Resource and Compensation committee at Neptune Marine Services Limited.</p>
Directorships held in other listed entities	— Mr Kennan currently sits on several boards and has recently retired from his position as a Chairperson of CEO mentoring group, The Executive Connection. Mr Kennan does not hold any Directorships in other listed entities.
Mr David Agostini	— Non-Executive Director
Qualifications	— BSc Engineering from NC State University, Chartered Professional Engineer, Fellow - Engineers Australia, Graduate AICD.
Experience	<p>— Mr Agostini, aged 71, is highly experienced in working with Government, universities and research groups. Mr Agostini is currently the Adjunct Professor at the Centre of Oil and Gas Engineering, at the University of WA, chaired the School's industry advisory board and the Industry Reference Group supporting the WA State Government in reforming Western Power in WA. He also holds a similar position with the advisory board of the Australian Resources Research Centre.</p> <p>Mr Agostini is the chairman of the governing board of the WA Energy Research Alliance and was a member of the four-man panel chaired by Senator Warwick Parer which carried out the Australian Energy Markets Review for COAG over 12 months in 2002.</p> <p>His professional career includes positions as General Manager of Woodside's North West Shelf interests, including the decision-making forum for marketing LNG into Asia; and is a former Woodside General Manager of Operations, covering the 3 Train LNG plant, domestic gas plant, North Rankin and Goodwin offshore platforms, the Cossack Pioneer floating production system and offshore drilling rigs.</p> <p>Mr Agostini is also a former General Manager Gas for Woodside; and Deputy Strategy Manager for Shell in The Hague, covering downstream refining and LNG operations in the USA, Africa, and the Middle East.</p> <p>Mr Agostini currently chairs the Occupational Health, Safety and Environment committee at Neptune Marine Services Limited.</p>
Directorships held in other listed entities	— Mr Agostini does not hold any Directorships in other listed entities.
Mr Geoff Newman	— Non-Executive Director
Qualifications	— Mr Newman has a Bachelor of Economics (Honours) and a Master of Business Administration from the University of Western Australia. He is also Fellow of the Australian Society of Certified Practising Accountants (FCCA) and a Fellow of the Australian Institute of Company Directors (FAICD). Mr Newman chairs the Capital Management committee at Neptune Marine Services Limited.

Experience	— Mr Newman, aged 58, has over 25 years experience in finance, marketing and general management roles in organisations either directly involved in the resources sector or providing services and products to businesses in that sector. In 1995, after managing Bunnings Pulpwood operations for a number of years, he joined Coogee Chemicals Pty Ltd as Commercial Manager and then was appointed to the Board as Finance Director in the following year. Until August 2005, he was Finance Director/CFO and Company Secretary of both Coogee Chemicals and its oil and gas subsidiary Coogee Resources Limited before he retired from the Coogee group of companies at the end of June 2006.
Directorships held in other listed entities	— Mr Newman resigned from Mount Magnet South NL on 9 September 2010.
Mr Robert Scott	— Non-Executive Director
Qualifications	— Fellow of the Institute of Chartered Accountants in Australia.
Experience	— Mr Scott, aged 63, has had a distinguished career spanning 35 years as a Chartered Accountant primarily with major accounting firms. He retired as an International Partner of Arthur Andersen in 1995. Mr Scott currently chairs the Audit and Governance Committee at Neptune Marine Services Ltd.
Directorships held in other listed entities	— Mr Scott currently holds the following non-executive board positions with listed entities, Amadeus Energy Limited since March 1996, bioMD Limited - since June 1999, Australian Renewable Fuels Limited - since December 2002, Homeloans Limited –since November 2000, CGA Mining since January 2010 and Sandfire Resources NL since July 2010. Mr Scott was previously a director of New Guinea Energy Ltd during period July 2006 to May 2009.
Mr Christian Lange	— Chief Executive Officer and MD
Qualifications	— MBA from Curtin University; Member, Australian Institute of Company Directors
Experience	— Mr Lange, aged 43, is a former international Vice President for the global oilfield services group, Schlumberger Limited. In a 16-year career with Schlumberger, Mr Lange held a range of Senior Executive positions responsible for operations, capital markets, marketing, business strategy and general management. Mr Lange currently chairs the Risk Management committee at Neptune Marine Services Ltd.
Directorships held in other listed entities	— Mr Lange was a non-executive Director of Surtron Technologies until he resigned on 27 June 2010. Mr Lange is currently a non-executive Director of Mobilarm Pty Limited, a company listed on the ASX..

REMUNERATION REPORT (Audited)

We are pleased to present the 2010 Remuneration Report for your Company. We trust you will find this years report more user-friendly, with a focus on the information we believe shareholders want to see.

The Board has spent considerable time this year focusing on its remuneration framework, reflecting on past feedback, the current strategic direction of the business on how remuneration can best support the future needs of the business.

During 2010 we undertook a comprehensive internal and external assessment of our remuneration practices, and commissioned a review of our remuneration framework by external advisors.

This review will result in significant changes to our remuneration framework, with the new remuneration structure to take effect for the FY2011.

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
 - Segment 1 - individuals within Neptune who are best able to influence the long-term strategy and direction of the organisation
 - Segment 2 – key managers across the organisation who have greater influence over Business Unit outcomes rather than company wide outcomes
 - 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

REMUNERATION REPORT (Audited) . . . Continued

Overview of the Company's new approach to executive reward

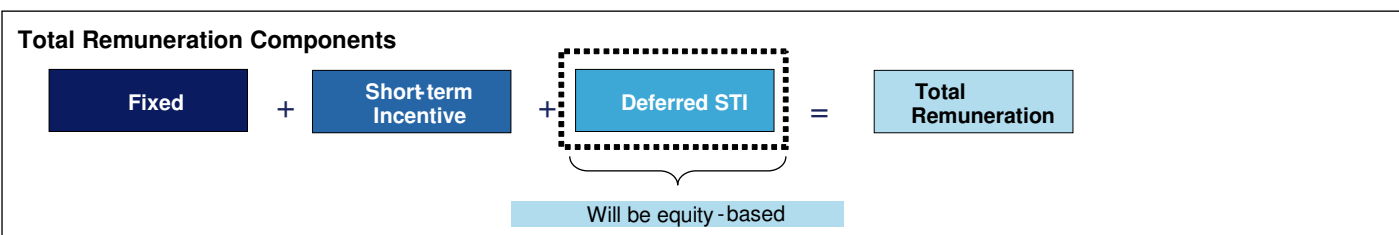
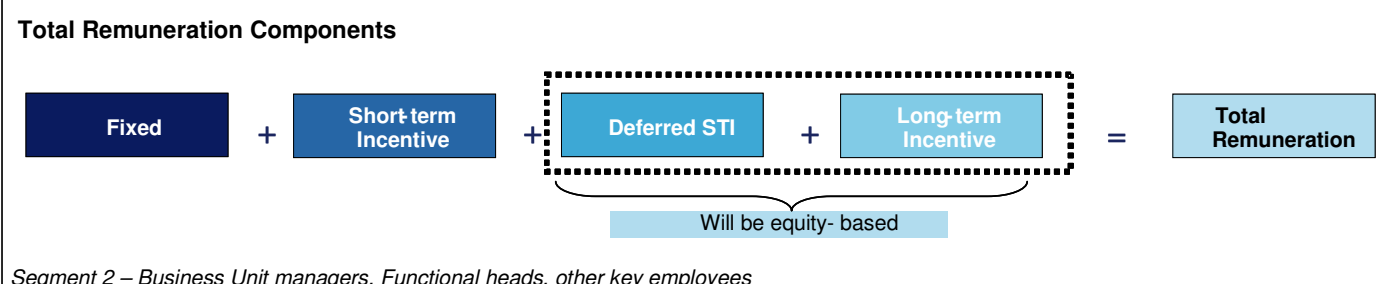
Neptune's remuneration strategy recognises and rewards performance in a way that is consistent with general practices in the markets in which the Group operates. The Company's new remuneration philosophy is focused on the following key principles:

- alignment to sustainable long-term value creation
- assist the attraction and retention of highly skilled employees
- be competitive within the global markets in which the company operates
- alignment is best achieved through high levels of equity ownership
- provide high rewards for true outperformance
- simple and transparent remuneration framework
- consistent remuneration framework across the organisation

New 2011 Total Annual Remuneration framework

For 2011 the total annual remuneration structure for Segment 1 and 2 employees will be as per the below tables, the structure for Segment 3 employees is still being finalised:

Segment 1 – CEO, Regional VP's, Group VP's, CFO



Reward Mix – under the new structure the CEO has over 66% of his total annual remuneration at-risk (ie subject to performance), other segment 1 employees have between 40% and 50% of their total annual remuneration at risk. For segment 2 employees approximately 30% of their total annual remuneration is at-risk. This structure ensures that a significant portion of an employees 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 comprised the following elements:

- Base salary, superannuation, other benefits and cost of Fringe Benefits Tax
- Is designed to reward "come-to-work" behaviours and values and activities required to fulfil individuals job description

Short-term incentives – STI rewards reflect both individual and business performance over the relevant financial year through the use of individual performance scorecards. Each employee has a target STI expressed as a percentage of their base salary. Payment of the individuals target STI is dependent on performance against their scorecard, which measures performance against the following key performance drivers:

- Occupational Health, Safety and Environment
- Human Resources Management
- Financial Performance
- Financial Management

Deferred Short-term incentives – where STI awards are above a set threshold, it is mandated that the excess amount must be taken in the form of a deferred equity award. The equity award will be delivered as a grant of Performance Rights, which will vest equally up to the third anniversary of their grant, subject to the employee remaining employed at this date, if the employee leaves before the vest date they will forfeit their Performance Rights. The deferred STI is designed to achieve the following key objectives:

- Ensure that the where large STI's are due the performance which triggered the payment is sustainable – this is done by requiring the award to be taken as a grant of Performance Rights, which value will ultimately align to the future share price at the vest date
- Creates further alignment with shareholders by requiring incentives to be taken as shares
- Assists with retention by holding the STI at risk through the vesting period

REMUNERATION REPORT (Audited) . . . Continued

Long-term incentives – LTI awards are limited to those employees who can directly influence the long-term strategic direction of the company. The LTI is delivered via a grant of Performance Rights, which has the following key features:

Instrument – Performance Rights

Grant value – set as a percentage of base salary – ranging between 25% to 100%, depending on the role

Grant cycle – employees receive a grant every year as part of their total annual remuneration

Vesting / Performance period – the rights vest on the 4th anniversary of their grant date, subject to meeting the performance hurdles, this period of time ensures that the performance is long-term and sustainable

Performance Conditions – each grant of Performance Right is split into two equal tranches, with each tranche having an independent performance hurdle.

Tranche 1 – will have performance measured against relative Total Shareholder Return, based on performance against a select group of peer companies, which represents those companies against which Neptune competes with in the market. It is simply a function of the business in which Neptune operates that most of those competitors are internationally based.

Outperformance of Neptune against this peer group should be strongly correlated to improved shareholder value. This is on the basis that outperformance against this peer group would typically mean Neptune has been successful in growing its share of the market at the expense of its competitors.

The current peer group comprises the following companies: Oceaneering Int'l, Superior Energy Services, Trico Marine, Cal Dive, Global Industries, Helix Energy Solutions, Acergy, DOF, Fugro, Subsea 7, Mermaid Maritime, Clough Ltd.

Tranche 1 will vest based on the following performance schedule:

Relative TSR performance	Vesting Outcomes (% vested of TOTAL Performance Rights Grant)
Less than 50 th percentile	0% vesting
At 50 th percentile	25% vesting
Between 50 th and 75 th percentile	For each percentile over the 50 th , an additional 1% of the performance rights will vest
At or above 75 th percentile	50% vesting

Tranche 2 – will have performance measured against an absolute Total Shareholder Return, based on a compound average growth rate (CAGR) target over the 4 year period.

A cost of capital calculation was used to determine an appropriate vesting schedule for absolute TSR. TSR CAGR performance above Neptune's cost of capital would have resulted in the creation of shareholder value.

Absolute TSR will be used as a threshold performance reward, ie at this level shareholder value has been created and it is appropriate that some vesting occur, with full vesting only occurring where the stretch relative TSR hurdle is achieved in tranche 1.

Tranche 2 will vest based on the following performance schedule:

Absolute TSR Performance	Vesting Outcomes (% vested of TOTAL Performance Rights Grant)
Less than 13% TSR CAGR	0% vesting
13% TSR CAGR	25% vesting
15% TSR CAGR	50% vesting
Linear vesting between 13% and 15% TSR	

REMUNERATION REPORT (Audited) . . . Continued

2010 Total Annual Remuneration framework

This report details the nature and amount of remuneration for each director of Neptune Marine Services Limited, as well as for the five executives of the Group and the Company receiving the highest remuneration. This remuneration reflects the current remuneration framework which does not yet reflect the new reward model which will apply for the 2011 financial year and which is described in detail in the earlier reward summary. The format of the report aligns with the June 2010 recommendations of the Australian Institute of Company Directors.

For the purpose of this report, the definition of “key senior personnel” 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 senior personnel, Neptune Marine Services Limited has established the Human Resources and Compensation Committee. The Committee assists the Board in establishing human resources and compensation policies and practices including the specific remuneration (including base pay, incentive payments, bonuses, equity awards, superannuation, retirement rights, termination payments, services contracts) to the CEO and other key senior personnel. The proceedings of each Committee meeting are reported directly to the Board.

Remuneration Philosophy and Policy

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

The Board believes the remuneration policy is both appropriate and effective in its ability to attract and retain the highest calibre executives and directors to manage the consolidated Neptune Group.

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Two methods are applied to achieve this aim, namely:

- A performance based bonus measured on key performance indicators
- The issue of Incentive Options to senior executives

The company believes this policy will increase shareholder wealth in the future.

The Board's policy for determining the nature and amount of remuneration of key senior personnel within the Neptune Group is as follows:

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

- Length of service
- Experience of the individual concerned
- Overall company performance

Key management personnel are also remunerated based on key performance areas that include:

- Occupational Health, Safety and Environment
- Human Resources Management
- Financial Performance
- Financial Management
- Total Shareholder return

All remuneration paid to directors and key senior personnel is valued at the cost to the company and is expensed. Shares allocated to directors and key senior personnel are valued as the difference between the market price of those shares and the amount paid by the director or key senior personnel. Incentive Options are valued using the Binomial methodology.

Incentivised remuneration

In light of the Company's need to attract, retain and motivate key executives, the Board engages remuneration consultants to assist its review of the employment market for key executives and best practice in executive remuneration and incentive programs, from both a short term and long term perspective.

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 the successful implementation of strategies for growth through acquisitions and subsequent integration and completion of larger projects. Both plans seek to reward and incentivise by aligning the interests of key senior personnel with those of shareholders, and are intended to form part of the overall remuneration package of the executive.

The CEO's remuneration mix comprises 33% fixed remuneration as a proportion of total remuneration, up to 33% if STI is on target and up to 33% if LTI is on target. Executives' remuneration mix ranges from 50% fixed remuneration as a proportion of total remuneration, up to 25% if STI is on target and 25% if LTI on target. KMPs are eligible for a further discretionary bonus approved by the Board in case of significant over performance.

REMUNERATION REPORT (Audited) . . . Continued

Australian Federal Government Budget for 2009 introduced changes to Company Employee Share Option plans resulting in most ASX companies either deferring their Executive and employee option plans or putting a freeze on the option plans until the legislation was finalised. In line with these changes, Neptune deferred its Incentive Option plan. As an interim measure, STI's and LTI's, if achieved in line with key performance indicators would have been paid in cash. STI's included NPAT as a financial performance measure against budget.

During financial year 2010, as a result of not meeting the key performance indicators, no cash or equity related incentives were approved for either STI or LTI performance.

Future remuneration

The employment conditions of the Managing Director, Mr Christian Lange, and other key senior personnel are formalised in contracts of employment. The contracts for service between the Company and key senior personnel are on a continuing, permanent basis. Upon retirement, key senior personnel are paid employee benefit entitlements accrued to the date of retirement. Subject to the terms & conditions of the employment contracts, any performance right or previously issued option that has not vested or been exercised before or on the date of termination subsequently lapse.

Executive directors and key senior personnel receive a superannuation guarantee contribution as required by the government. The contribution currently stands at 9% however some individuals choose to sacrifice a portion of their salary in order to increase contributions towards superannuation.

Non-executive director remuneration arrangements*Remuneration Policy*

The board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest 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 annually against fees paid to non executive directors (NEDs) of comparable companies. The board considers advice from external consultants when undertaking the annual review process.

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 2009 annual general meeting (AGM) held on 24 November 2009 when shareholders approved an aggregate fee pool of \$400,000 to \$600,000, such fees to be allocated to the Directors as the Board of Directors may determine.

The board will not seek any increase for the NED pool at the 2010 AGM.

Structure

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 fee of \$60,000 plus superannuation for being a director of the Group, while the Board Chairman receives a base fee of \$120,000 plus superannuation. An additional fee of \$6,250 to \$15,000 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.

NEDs have long been encouraged to hold shares in the Company. The Company facilitates these shareholdings through the NED share plan. Under the plan, NEDs, except for Board Chairman are required to take \$10,000 of their annual fees in the form of shares in the Company, while the Board Chairman is required to take \$20,000 of his annual fees in the form of shares in the Company. The shares are purchased on-market at the prevailing market share price. This arrangement is in line with the Group's overall remuneration philosophy and aligns NEDs with shareholder interests. Shares are held under trading lock until the earlier of the lapse of a 3 year period or the date on which the NED ceases to be a director.

Remuneration Outcomes

The remuneration received by key senior personnel and NEDs during the 2010 fiscal year, in 'actual pay' terms, is summarised in the below table.

REMUNERATION REPORT (Audited) . . . Continued

2010	Short-term benefits				Post Employment Benefits	Other Long-term Benefits	Share-based Payment*		Total	Proportion of remuneration based on performance %	Value of options as proportion of remuneration %
	Cash, salary & commissions \$000	Bonus \$000	Non - cash benefit \$000	Other ** \$000	Super- annuation \$000	Other \$000	Equity \$000	Options \$000	\$000		
Directors											
Mr Ross Kennan	120	-	-	-	11	-	20	-	151	0%	0%
Mr David Agostini	60	-	-	7	6	-	10	-	83	0%	0%
Mr Geoff New man	60	-	-	6	7	-	10	-	83	0%	0%
Mr Robert Scott	60	-	-	15	6	-	10	-	91	0%	0%
Mr Christian Lange	733	-	9	82	69	-	-	172	1,065	0%	16%
Key Management Personnel											
Mr Geoffrey Edwards (1)	310	-	9	22	28	-	-	76	445	0%	17%
Mr David Husband	280	-	9	32	27	-	-	-	348	0%	0%
Mr Mark Lindsay	284	-	9	39	23	-	-	-	355	0%	0%
Mr Russell Collins	227	-	9	23	23	-	-	-	282	0%	0%
Mr Kenneth Nimitz	282	-	-	27	3	-	-	118	430	0%	27%
Mr Lodewijk van Wachem	153	-	-	-	12	-	-	16	181	0%	9%
Mr Benoit Barbier	25	-	-	25	2	-	-	-	52	0%	0%
	2,594	-	45	278	217	-	50	382	3,566		

The above individuals were identified as key management personnel as they collectively form the strategic management committee. No performance related LTIs or STIs were awarded to any of the key management personnel during the year.

(1) Mr Geoffrey Edwards resigned as Chief Financial Officer on 30 July 2010. Mr David de Loubw as appointed as Chief Financial Officer on 30 July 2010.

* Share-based payment options are based on binomial valuation of options vested at balance date.

**Includes annual leave provision, car allowance for executives and KMPs. Includes committee fees for Non Executive Directors.

2009	Short-term benefits				Post Employment Benefits	Other Long-term Benefits	Share-based Payment		Total	Proportion of remuneration based on performance %	Value of options as proportion of remuneration
	Cash, salary & commissions \$000	Bonus \$000	Non - cash benefit \$000	Other \$000	Super- annuation \$000	Other \$000	Equity \$000	Options \$000	\$000		
Directors											
Mr Ross Kennan	120	-	-	(0)	11	-	20	-	151	0%	0%
Mr David Agostini	60	-	-	7	6	-	10	-	83	0%	0%
Ms Cathryn Curtin	30	-	-	0	3	-	5	-	38	0%	0%
Mr Geoff New man	40	-	-	3	4	-	8	-	55	0%	0%
Mr Robert Scott	60	-	-	15	7	-	10	-	92	0%	0%
Mr Christian Lange	650	1,040	14	(40)	61	-	-	425	2,150	48%	20%
Key Management Personnel											
Mr Geoffrey Edwards	262	211	7	(6)	24	-	-	123	621	34%	20%
Mr David Husband	180	-	-	11	18	-	-	-	209	0%	0%
Mr Mark Lindsay	180	-	-	27	50	-	-	-	257	0%	0%
Mr Russell Collins	180	1	-	15	18	-	-	-	214	1%	0%
	1,762	1,252	21	32	202	-	53	548	3,870		

REMUNERATION REPORT (Audited) . . . Continued

Managing Director's Service Agreement – Mr Christian Lange

The Company entered into an executive service agreement with Mr Lange to act as Managing Director of the Company effective from February 2008. 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 Mr Lange 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.

Mr Lange's current cash salary at the date of this report is \$750,000 per annum. The remuneration committee determines the proportion of fixed and variable compensation for each key management personnel.

Employment Contracts

The key terms and conditions of executive director and executive service agreements are outlined below:

Executive Directors and Executives	Position	Contract Duration	Non-Solicitation Clauses	Notice Periods based on Current Base Salary
Mr Christian Lange	Managing Director & CEO	Unlimited	Up to 12 months	12 months by Neptune, 6 months by the Executive
Mr Geoffrey Edwards	Chief Financial Officer	Unlimited	Up to 12 months	6 months by Neptune, 3 months by the Executive
Mr David Husband	Group Vice President Engineering Services	Unlimited	Up to 12 months	3 months by either party
Mr Mark Lindsay	Group Vice President Offshore Services	Unlimited	Up to 12 months	6 months by Neptune, 3 months by Neptune
Mr Russell Collins	Group Vice President Corporate Development	Unlimited	Up to 12 months	3 months by either party
Mr Lodewijk van Wachem *	Regional Vice President Europe, Mediterranean and Africa	Unlimited	Up to 12 months	12 months by Neptune, 6 months by the Executive
Mr Benoit Barbier**	Regional Vice President Asia and Middle East	Unlimited	Up to 12 months	6 months by Neptune, 6 months by the Executive
Mr Kenneth Nimitz***	Regional Vice President Americas	Unlimited	Up to 12 months	3 months by either party

* Resides in Aberdeen.

**Resides in Singapore.

***Resides in Houston.

All other directors and executives reside in Australia.

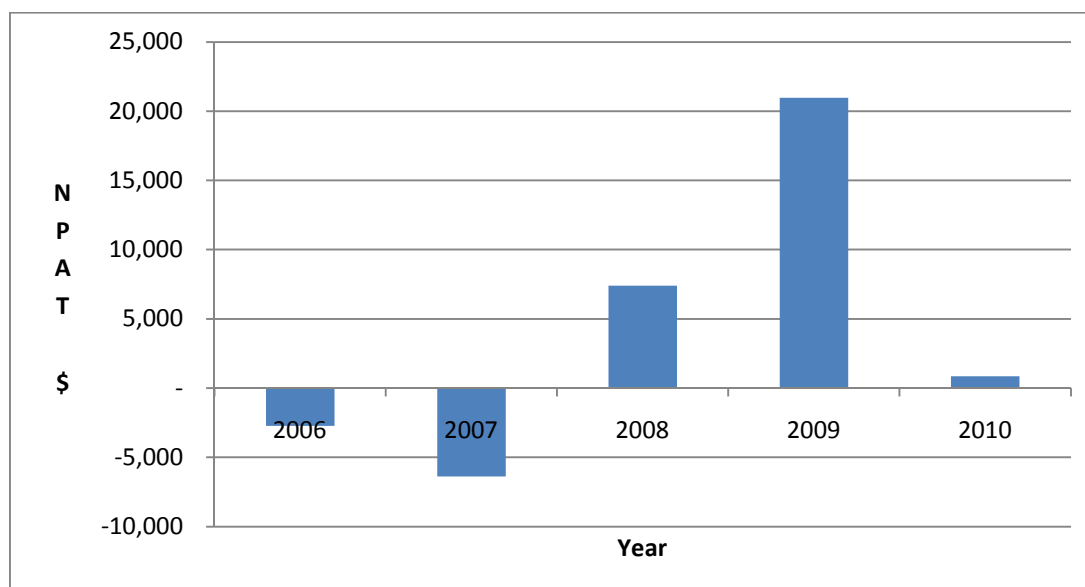
Hedging of Equity Awards

The Company does not have a policy which excludes executives from entering into contracts to hedge their exposure to options awarded as part of their remuneration package.

REMUNERATION REPORT (Audited) . . . Continued

Company performance and the link to remuneration

The financial performance measure driving STI payment outcomes is net profit after tax (NPAT). The following table outlines Neptune Marine's EPS over the four-year period from 1 July 2006 to 30 June 2010.



REMUNERATION REPORT (Audited) . . . Continued

Options granted as part of remuneration for the year ended 30 June 2010

Options are issued to employees and Directors as per the incentive option scheme detailed in note 28.

Options Granted As Remuneration

Terms & Conditions for Each Grant

2010	Vested in 2009/2010 (1)	Granted No	Grant Date	Value per Option at Grant Date	Exercise Price	First Exercise Date	Last Exercise Date
Directors							
Mr Christian Lange	1,000,000	-	-	-	-	-	-
Key Management Personnel							
Mr Geoffrey Edwards	358,334	-	-	-	-	-	-
Mr Kenneth Nimitz (2)	-	100,000	8/09/2009	0.699	\$0.33	29/07/2010	29/07/2014
		100,000	8/09/2009	0.699	\$0.33	29/07/2011	29/07/2014
		100,000	8/09/2009	0.699	\$0.33	29/07/2012	29/07/2014
		100,000	8/09/2009	0.699	\$0.33	29/07/2013	29/07/2014
Mr Lodewijk Van Wachem (2)	-	100,000	5/03/2010	0.228	\$0.62	4/02/2011	4/02/2015
		100,000	5/03/2010	0.228	\$0.62	4/02/2012	4/02/2015
		100,000	5/03/2010	0.228	\$0.62	4/02/2013	4/02/2015
		100,000	5/03/2010	0.228	\$0.62	4/02/2014	4/02/2015
	1,358,334	800,000					

(1) Options vested relate to options granted in prior years

(2) Neptune paid sign-on options under the Incentive Options Scheme to new executives Mr Wachem and Mr Nimitz during the financial year, vesting over a 4 year period. There were no performance conditions attached. All options entitle the holder to one ordinary share. Options are valued using a Binomial Option Pricing Model. See note 27 Share Based Payments.

Terms & Conditions for Each Grant

2009	Vested in 2008/2009 (1)	Granted No	Grant Date	Value per Option at Grant Date	Exercise Price	First Exercise Date	Last Exercise Date
Directors							
Mr Christian Lange	1,000,000	1,000,000	13/12/2008	0.14	0.28	13/12/2009	12/12/2013
		1,000,000	13/12/2008	0.14	0.28	13/12/2010	12/12/2013
		1,000,000	13/12/2008	0.14	0.28	13/12/2011	12/12/2013
Key Management Personnel							
Mr Geoffrey Edwards	225,000	133,334	13/12/2008	0.14	0.28	13/12/2009	12/12/2013
		133,333	13/12/2008	0.14	0.28	13/12/2010	12/12/2013
		133,333	13/12/2008	0.14	0.28	13/12/2011	12/12/2013
	1,225,000	3,400,000					

(1) Options vested relate to options granted in prior years

All options granted, vest within one to four years of grant date.

Exercise price equals the market price at date of the grant for those options granted prior to the 18 June, 2008. Thereafter, the board approved that the exercise price will be the higher of 12 month VWAP or 30 trading day VWAP plus 10%.

The service and performance criteria set to determine remuneration are included in this remuneration report.

On termination with cause any unvested options will immediately be forfeited.

REMUNERATION REPORT (Audited) . . . Continued

Options Granted as part of Remuneration

2010

Directors

Mr Christian Lange

Key Management Personnel

Mr Kenneth Nimitz

Mr Lodewijk Van Wachem

	Value of Options Granted \$	Value of Options Exercised \$	Value of Options Lapsed \$
	-	-	-
	279,520	-	-
	91,160	-	-
	370,680	-	-

2009

Directors

Mr Christian Lange

Key Management Personnel

Mr Geoffrey Edwards

	Value of Options Granted \$	Value of Options Exercised \$	Value of Options Lapsed \$
	422,700	-	-
	56,360	-	-
	479,060	-	-

Shares Issued to Non-Executive Directors

2010

Non-Executive Directors

Mr Ross Kennan

Mr David Agostini

Mr Geoff Newman

Mr Robert Scott

	Grant Date	No. of Shares Issued	Price per Share \$	Total \$
	24/11/2009	33,404	0.60	20,000
	24/11/2009	16,702	0.60	10,000
	24/11/2009	16,702	0.60	10,000
	24/11/2009	16,702	0.60	10,000
		83,510		50,000

2009

Non-Executive Directors

Mr Ross Kennan

Mr David Agostini

Ms Cathryn Curtin

Mr Geoff Newman

Mr Robert Scott

	Grant Date	No. of Shares Issued	Price per Share \$	Total \$
	20/11/2008	71,429	0.28	20,000
	20/11/2008	35,715	0.28	10,000
	20/11/2008	17,857	0.28	5,000
	20/11/2008	26,786	0.28	7,500
	20/11/2008	35,714	0.28	10,000
		187,501		52,500

Restricted Shares are granted to Non Executive Directors (NED) under the 2007 NED Share plan approved by Shareholders at the AGM held on 19 November 2007. Shares are held under trading lock until the earlier of the lapse of a 3 year period or the date on which the NED ceases to be a director.

End of Audited Remuneration Report

Meeting of Directors

During the financial year, 16 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Directors' Meetings		Audit & Governance Committee Meetings		Human Resources & Compensation Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Directors' names						
Mr Ross Kennan	16	16	5	5	4	4
Mr David Agostini	16	13	-	-	-	-
Mr Geoff Newman	16	16	5	5	-	-
Mr Robert Scott	16	15	5	5	4	4
Mr Christian Lange	16	13	-	-	4	4

	Capital Management Committee		Occupational Health, Safety & Environment	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Directors' names				
Mr Ross Kennan	10	10	5	5
Mr David Agostini	10	8	5	5
Mr Geoff Newman	10	10	-	-
Mr Robert Scott	-	-	-	-
Mr Christian Lange	10	5	5	2

Indemnification and Insurance of Directors and Officers

The company has agreed to indemnify 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 year 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 contract.

Options

At the date of this report, the unissued ordinary shares of Neptune Marine Services Limited under option are as follows:

	Weighted average exercise price	Number under option
Listed	\$0.20	15,242,922
Unlisted	\$0.55	<u>18,782,932</u>
		<u>34,025,854</u>

All options entitle the holder to one ordinary share.

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 year.

Employee details

Details of the number of permanent employees in the consolidated group as at 30 June 2010 are set out below:

	2010 No.	2009 No.
Full time equivalent employees	640	609

Non-audit Services

Amounts paid to the auditor of the company, Ernst and Young, and its related practices for all non-audit services provided during the year were \$283,000. Refer Note 6 for details. The nature of non-audit services provided means that auditor independence was not compromised. The directors are satisfied that provision of non-audit services is compatible with the general standard of independence for auditors imposed by Corporations Act 2001.

Auditor Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 13 of the directors' report.

Rounding of Amounts

The company is an entity to which ASIC Class Order 98/100 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.

Chairman 
Mr Ross Kennan

Chief Executive and Managing Director 
Mr Christian Lange

Dated this 30 day of September 2010

DIRECTORS' DECLARATION

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

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 30 June 2010 and of its performance for the year ended on that date; and

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

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1;

(c) subject to the achievement of the matters set out in note 1 to the financial statements there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2010.

Chairman



Mr Ross Kennan

Dated this 30 day of September 2010.

AUDITORS INDEPENDENCE DECLARATION



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11 Mounts Bay Road
Perth WA 6000 Australia
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Tel: +61 8 9429 2222
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Auditor's Independence Declaration to the Directors of Neptune Marine Services Limited

In relation to our audit of the financial report of Neptune Marine Services Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A stylized signature of the Ernst & Young firm, written in a cursive script.

Ernst & Young

A handwritten signature of C B Pavlovich, written in a cursive script.

C B Pavlovich
Partner
Perth
30 September 2010

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2010

Consolidated Group			
		2010 \$000	2009 \$000
Revenue	2(a)	179,409	188,959
Cost of sales and services rendered		<u>(124,903)</u>	<u>(99,831)</u>
Gross Profit		54,506	89,128
Other revenue	2(b)	2,273	2,045
Marketing expenses		(772)	(1,018)
Occupancy expenses		(4,884)	(4,370)
Corporate and administrative expenses	3(d)	(48,117)	(50,680)
Technical expenses		(223)	(256)
Foreign exchange gain		2,441	389
Finance costs	3(a)	(5,235)	(4,871)
Gain/(loss) on derivative financial instrument		<u>300</u>	<u>(480)</u>
Profit from continuing operations before income tax		289	29,887
Income tax benefit/(expense)	4	<u>560</u>	<u>(8,916)</u>
Profit from continuing operations attributable to members of the parent		<u>849</u>	<u>20,971</u>
Earnings Per Share			
Basic earnings per share (cents per share)	8	0.20	6.94
Diluted earnings per share (cents per share)	8	0.20	6.85

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated	
	2010	2009
	\$000	\$000
Net profit for the period	849	20,971
Other Comprehensive income		
Foreign currency translation	(9,187)	7,910
Net loss on a hedge of net investment	(1,893)	-
Income tax on items of other comprehensive income	568	-
Other comprehensive income for the period, net of tax	(10,512)	7,910
Total comprehensive income/(loss) for the period	(9,663)	28,881
Total comprehensive income/(loss) for the period attributable to members of the parent	(9,663)	28,881

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

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2010

		Consolidated	
	Note	30 June 2010 \$000	30 June 2009 \$000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	21,781	24,277
Trade and other receivables	10	42,579	38,355
Inventories	11	5,714	4,602
Current tax receivable	18	1,983	-
Other current assets	15	6,229	2,297
TOTAL CURRENT ASSETS		78,286	69,531
NON-CURRENT ASSETS			
Trade and other receivables	10	2,546	998
Property, plant and equipment	13	82,384	69,277
Deferred tax assets	18	2,111	4,299
Intangible assets and goodwill	14	164,071	145,810
Other non-current assets	15	84	339
TOTAL NON-CURRENT ASSETS		251,196	220,723
TOTAL ASSETS		329,482	290,254
CURRENT LIABILITIES			
Trade and other payables	16	41,962	46,665
Interest bearing loans and borrowings	17	39,248	12,835
Current tax liabilities	18	-	6,781
Derivative financial instruments	20	135	205
Provisions	19	1,506	1,888
TOTAL CURRENT LIABILITIES		82,851	68,374
NON-CURRENT LIABILITIES			
Trade and other payables	16	2,876	12,717
Interest bearing loans and borrowings	17	19,759	24,335
Deferred tax liabilities	18	2,757	2,620
Derivative financial instruments	20	45	275
TOTAL NON-CURRENT LIABILITIES		25,437	39,947
TOTAL LIABILITIES		108,288	108,321
NET ASSETS		221,194	181,933
EQUITY			
Contributed equity	21	205,804	157,733
Reserves	22	(2,678)	6,981
Retained earnings		18,068	17,219
TOTAL EQUITY		221,194	181,933

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	Ordinary Shares	Retained Earnings/ (Accumulated Losses)	Foreign Currency Translation Reserve	Option Reserve	Hedge Reserve	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Consolidated Group						
Balance at 1 July 2008	139,405	(3,752)	(6,196)	4,124	-	133,581
Profit for the period	-	20,971	-	-	-	20,971
Other comprehensive income	-	-	7,910	-	-	7,910
Total comprehensive income for the year	-	20,971	7,910	-	-	28,881
Transactions with owners in their capacity as owners						
Shares issued during the year	18,858	-	-	-	-	18,858
Transaction costs (net of tax)	(555)	-	-	-	-	(555)
Exercise of options	25	-	-	-	-	25
Share based payments	-	-	-	1,143	-	1,143
Sub-total	18,328	20,971	7,910	1,143	-	48,352
Balance at 30 June 2009	157,733	17,219	1,714	5,267	-	181,933
Profit for the period	-	849	-	-	-	849
Other comprehensive income	-	-	(9,187)	-	(1,325)	(10,512)
Total comprehensive income for the year	-	849	(9,187)	-	(1,325)	(9,663)
Transactions with owners in their capacity as owners						
Shares issued during the year	41,205	-	-	-	-	41,205
Vendor shares	7,879	-	-	-	-	7,879
Transaction costs (net of tax)	(1,063)	-	-	-	-	(1,063)
Exercise of options	50	-	-	-	-	50
Share based payments	-	-	-	853	-	853
Sub-total	205,804	18,068	(7,473)	6,120	(1,325)	221,194
Balance at 30 June 2010	205,804	18,068	(7,473)	6,120	(1,325)	221,194

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

		Consolidated	
		2010	2009
		\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		190,844	187,491
Interest received		1,005	671
Payments to suppliers and employees		(182,983)	(144,483)
Interest paid		(3,025)	(2,450)
Income tax paid		(8,371)	(5,803)
Net cash flow s (used in)/from operating activities	26	<u>(2,530)</u>	<u>35,426</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		22	194
Purchase of property, plant and equipment		(13,356)	(48,804)
Expenditure on development costs		(954)	(193)
Acquisition costs paid		-	(570)
Payment for subsidiaries, net of cash acquired	32	(25,676)	(11,553)
Deferred consideration on previous business combination		(9,562)	(9,591)
Net cash flow s (used in) investing activities		<u>(49,526)</u>	<u>(70,517)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of shares		39,684	12,000
Proceeds from exercise of options		50	25
Share/option issue costs		-	(767)
Proceeds from borrow ings		32,155	38,952
Borrow ing costs		(991)	(956)
Repayment of borrow ings		(16,694)	(8,469)
(Payment)/receipt of deposits for bank guarantee		(3,675)	475
Net cash flow s from financing activities		<u>50,529</u>	<u>41,260</u>
Net increase/(decrease) in cash and cash equivalents held			
		(1,527)	6,169
Cash and cash equivalents at beginning of financial year		24,277	18,155
Net foreign exchange difference		(969)	(47)
Cash and cash equivalents at end of financial year		<u>21,781</u>	<u>24,277</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 1 Corporate Information, Basis of Preparation and Summary of Accounting Policies

Statement of Significant Accounting Policies

Corporate Information

The financial report of Neptune Marine Services Limited for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the Director's on 30 September 2010.

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

The nature of the operations and principal activities of the Group are described in the director's report.

Basis of Preparation

The financial report is a general purpose financial report that 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 and the Corporations Act 2001.

The consolidated financial report of the consolidated entity and the financial report of the company comply with the **Australian Accounting Standards** and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board.

The financial report has been prepared on an historical costs basis, except for derivative financial instruments and contingent consideration relating to business combinations, which have been measured at fair value.

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 30 June 2010 the consolidated entity had a net current asset deficiency of \$4,565,000 (2009: surplus of \$1,157,000). At that date the consolidated entity had cash and cash equivalents of \$21,781,000 (2009: \$24,277,000).

Since balance date, the GBP 15,000,000 bridging facility's repayment date was extended to 15 October 2010. The Company is currently in negotiations with its banker the NAB to refinance its facilities.

As of the date of this report, the bank has confirmed its intention to agree to continue to extend the maturity date of this facility to allow for the completion of the refinancing.

Based on discussions with the NAB, the Directors of the Group expect that the bank will either agree to provide longer term funding, or will provide the Group with a reasonable timeframe in which to refinance the business by way of a re-capitalisation.

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.

Should the Group not achieve the matters set out above, the group may not be able to continue as a going concern or may have to dispose of assets other than in the normal course of business. No adjustments related to the recoverability and classification of recorded assets or liabilities related to the above have been made in the financial report.

(a) New Accounting Standards and Interpretations

Set out below are the material accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(i) *Changes in accounting policy and disclosures.*

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009.

- AASB Int. 15 Agreements for the Construction of Real Estate
- AASB Int. 16 Hedges of a Net Investment in a Foreign Operation
- AASB Int. 17 and AASB 2008-13 Distributions of Non-cash Assets to Owners and consequential amendments to Australian Accounting Standards AASB 5 and AASB 110
- AASB Int. 18 Transfers of Assets from Customers
- AASB 8 and AASB 2007-3 Operating Segments and consequential amendments to other Australian Accounting Standards
- AASB 1039 (revised) Concise Reporting
- AASB 123 (Revised) and AASB 2007-6 Borrowing Costs and consequential amendments to other Australian Accounting Standards
- AASB 101 (Revised), AASB 2007-8 and AASB 2007-10 Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards
- AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations
- AASB 2008-2 Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation
- AASB 3 (Revised) Business Combinations
- AASB 127 (Revised) Consolidated and Separate Financial Statements
- AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project
- AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project
- AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate 1 January 2009
- AASB 2008-8 Amendments to Australian Accounting Standards – Eligible Hedged Items
- AASB 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]
- AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]
- AASB 2009-7 Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]

When the adoption of the new or amended Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

AASB 3 Business Combinations (revised 2008) and AASB 127 Consolidated and Separate Financial Statements (revised 2008)

The Group adopted the revised standards from 1 July 2009. AASB 3 (revised 2008) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interests (previously “minority interests”), the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes impacted the amount of goodwill recognised, the reported results in the period when an acquisition occurs, and future reported results.

The impact of adopting the revised standard was that the transaction costs of the business combinations were expensed. Refer to note 32.

AASB 127 (revised 2008) requires that a change in the ownership interest of a subsidiary (without a change in control) is to be accounted for as a transaction with owners in their capacity as owners. Therefore such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the statement of comprehensive income. Furthermore the revised Standard changes the accounting for losses incurred by a partially owned subsidiary as well as the loss of control of a subsidiary. The changes in AASB 127 (revised 2008) will affect future transactions, involving loss of control of subsidiaries and transactions with non-controlling interests. The change in accounting policy was applied prospectively and had no impact on the Group.

AASB 8 Operating Segments

AASB 8 replaced AASB 114 *Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 25, including the related revised comparative information.

AASB 101 Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two linked statements.

AASB 123 Borrowing Costs

The revised AASB 123 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended AASB 123, the Group has adopted the Standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 July 2009. The Group did not capitalise any borrowing costs in the current year.

(ii) *New and Amended Accounting Standards and Interpretations issued but not yet effective*

The following standards and interpretations have been issued by the AASB but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2010:

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	<p>The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following:</p> <p>The amendment to AASB 117 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined.</p> <p>The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.</p> <p>The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.</p> <p>The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity:</p> <ul style="list-style-type: none"> ▶ has primary responsibility for providing the goods or service; ▶ has inventory risk; ▶ has discretion in establishing prices; ▶ bears the credit risk. <p>The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes.</p> <p>The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.</p> <p>The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.</p>	1 January 2010	The Group is yet to assess the impact	1 July 2010

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	<p>This Standard makes amendments to Australian Accounting Standard AASB 2 <i>Share-based Payment</i> and supersedes Interpretation 8 <i>Scope of AASB 2</i> and Interpretation 11 <i>AASB 2 – Group and Treasury Share Transactions</i>.</p> <p>The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction.</p> <p>The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.</p>	1 January 2010	The Group is yet to assess the impact	1 July 2010
AASB 2009-9	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> .	<p>The amendments address the retrospective application of IFRSs to particular situations and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process.</p> <p>Specifically, the amendments:</p> <ul style="list-style-type: none"> ▶ exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets ▶ exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 <i>Determining whether an Arrangement contains a Lease</i> when the application of their national accounting requirements produced the same result. 	1 January 2010	The Group is yet to assess the impact	1 July 2010
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met.	1 February 2010	The Group is yet to assess the impact	1 July 2010

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.</p> <p>(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.</p> <p>(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p>	1 January 2013	The Group is yet to assess the impact	1 July 2013

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	<p>The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:</p> <ul style="list-style-type: none"> ▶ two categories for financial assets being amortised cost or fair value ▶ removal of the requirement to separate embedded derivatives in financial assets ▶ strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows ▶ an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition ▶ reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes ▶ changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income 	1 January 2013	The Group is yet to assess the impact	1 July 2013
AASB 124 (Revised)	Related Party Disclosures (December 2009)	<p>The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:</p> <ul style="list-style-type: none"> (a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; (b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and (c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. 	1 January 2011	The Group is yet to assess the impact	1 July 2011

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	<p>This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.</p> <p>In particular, it amends AASB 8 <i>Operating Segments</i> to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB.</p>	1 January 2011	The Group is yet to assess the impact	1 July 2011
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	<p>These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit.</p> <p>The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.</p>	1 January 2011	The Group is yet to assess the impact	1 July 2011
AASB 1053	Application of Tiers of Australian Accounting Standards	<p>This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:</p> <p>(a) Tier 1: Australian Accounting Standards; and</p> <p>(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.</p> <p>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.</p> <p>The following entities apply Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) for-profit entities in the private sector that have public accountability (as defined in this Standard); and</p> <p>(b) the Australian Government and State, Territory and Local Governments.</p> <p>The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) for-profit private sector entities that do not have public accountability;</p> <p>(b) all not-for-profit private sector entities; and</p> <p>(c) public sector entities other than the Australian Government and State, Territory and Local Governments.</p>	1 July 2013	The Group is yet to assess the impact	1 July 2013

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2010-2	Amendments to Australian Accounting Standards arising from reduced disclosure requirements	This Standard gives effect to Australian Accounting Standards – Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements.	1 July 2013	The Group is yet to assess the impact	1 July 2013
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.	1 July 2010	The Group is yet to assess the impact	1 July 2010
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	The Group is yet to assess the impact	1 July 2011

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	<p>This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.</p> <p>The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.</p>	1 July 2010	The Group is yet to assess the impact	1 July 2010

(b) Basis of Consolidation

A controlled entity is any entity that Neptune Marine Services Limited has the power to control the financial and operating policies so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 12 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the Group.

Where controlled entities have entered the consolidated group during the year, their operating results have been included from the date control was obtained.

(c) Income Tax

Income tax expense comprises of current and deferred tax. The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(d) 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 are 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.

(e) Property, Plant and Equipment

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

Plant and equipment

Plant and equipment are measured on the cost basis.

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 subsequent 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. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

(f) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Group as a lessee

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the consolidated group are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a diminishing value basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(g) Financial Instruments

Recognition

Financial instruments are initially measured at fair value, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out 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 and are stated at amortised cost using the effective interest rate method.

Non-derivative Financial liabilities

Non-derivative financial liabilities are initially recognised at fair value. Any subsequent measurement for non-derivative items is at amortised cost, comprising original debt less principal payments and amortisation.

Derivative Instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated hedges.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Hedging

Hedge of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment. The Group tests the effectiveness of the hedge on a bi-annual basis both retrospectively and prospectively using matched terms at each balance date, the Group measures ineffectiveness using the ratio offset method. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of such gains or losses recognised directly in other comprehensive income are transferred to profit or loss based on the amount calculated using the direct method of consolidation.

(h) Impairment of Non-Current Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(i) Goodwill and Intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable 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, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment determined in accordance with AASB 8.

Impairment testing is performed at 30 June each year using discounted cash flows under the value in use methodology. Further details on the methodology and assumptions used are outlined in note 14.

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an 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 manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Neptune Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of material, direct labour and costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in the profit or loss as incurred.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project (refer Note 14).

(j) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

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

Australia	AUD
Asia and Middle East	USD
United States of America	USD
United Kingdom	GBP

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Transition of Group Companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year end exchange rates prevailing at that reporting date;
- income and expenses are translated at the exchange rate on the date of the transaction; and

Exchange differences arising on translation of foreign operations including exchange differences on intercompany monetary items for which settlement is neither planned or likely to occur, are transferred directly to the group's foreign currency translation reserve in the

Statement of Financial Position. These differences are recognised in the income statement in the period in which the operation is disposed.

(k) Employee Benefits

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.

Equity Settled Compensation

The Group provides benefits to its employees (including key management personnel) in the form of share based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions)

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 27.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designed as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(l) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

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

(m) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within interest-bearing loans and borrowings in current liabilities on the balance sheet.

(n) Revenue

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.

(o) Government Grants

Government grants are recognised at fair value where there is a reasonable assurance that the grant will be received and all grant conditions will be met.

All revenue is stated net of the amount of goods and services tax (GST).

(p) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are capitalised as part of the cost of that asset, until such time as the assets are substantially ready for their intended use or sale.

Other borrowing costs include interest and finance charges in respect of finance leases, and are expensed as incurred.

(q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(r) Business Combinations

Subsequent to 1 July 2009 - refer note 32

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer 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-related costs are expensed as incurred.

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 conditions, the Group's operating or accounting policies and other 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 at fair value as 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 in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

Prior to 1 July 2009

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for in separate steps. Any additional interest in the acquiree acquired did not affect previously recognised goodwill. The goodwill amounts calculated at each step acquisition were accumulated.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were adjusted against goodwill.

(s) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(t) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors report have been rounded off to the nearest \$1,000.

(u) Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates, including forecasting of profits, cash flows, and discount rates. Refer to Note 14 for details on goodwill impairment.

Key Estimates - Depreciation

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 life are made when considered necessary. Depreciation charges are included in note 1(e).

Key Estimates - Share based payments

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 by an external valuer using a binomial model, with the assumptions detailed in note 27.

Key Estimates - Contingent consideration

The group together with external advice makes judgements on the potential profits of the newly acquired subsidiaries. These judgements have an impact on the amount and classification of contingent payments disclosed on the statement of financial position.

Key Estimates –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.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation. These judgements and assumptions require risk, and in some instances may require changes to the carrying 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 recognised. This could result in a corresponding credit or charge to the statement of comprehensive income.

Note 2 Revenue

		Consolidated Group	
		2010	2009
		\$000	\$000
a) Revenue			
— rendering of services revenue from operating activities		179,409	188,959
Total Revenue		<u>179,409</u>	<u>188,959</u>
b) Other Revenue			
— interest received		1,080	136
— government subsidies received		161	535
— other revenue		1,032	1,374
Total Other Revenue		<u>2,273</u>	<u>2,045</u>

Note 3 Expenses

		Consolidated Group	
		2010	2009
		\$000	\$000
a) Finance costs:			
— Interest to unrelated parties		3,258	2,261
— Interest on contingent consideration		1,977	2,545
— Finance charges payable under finance leases and hire		-	65
Total finance costs		<u>5,235</u>	<u>4,871</u>
b) Depreciation:			
i) Included in Cost of Sales			
— Depreciation of plant and equipment		3,389	2,142
— Depreciation of ROV's & vessels		3,149	4,301
Total		<u>6,538</u>	<u>6,443</u>
ii) Included in Corporate and Administrative Expenses			
— Depreciation of leasehold improvements		241	181
— Depreciation of leased vehicle		76	234
— Depreciation of office furniture and equipment		312	393
— Depreciation of software		165	-
Total		<u>794</u>	<u>808</u>
Total Depreciation expense		<u>7,332</u>	<u>7,251</u>

		Consolidated Group	
		2010 \$000	2009 \$000
c)	Employee benefit expenses:		
i)	Included in Cost of Sales		
—	salaries and wages	39,769	30,973
—	superannuation	2,864	2,400
—	other	2,496	5,117
	Total	<u>45,129</u>	<u>38,490</u>
ii)	Included in Corporate and Administrative Expenses		
—	salaries and wages	24,957	26,550
—	superannuation	1,180	1,600
—	employee entitlements	624	507
—	share based payments	903	1,205
—	other	2,522	4,458
	Total	<u>30,186</u>	<u>34,320</u>
	Total Employee benefit expenses	<u>75,315</u>	<u>72,810</u>
d)	Corporate and administrative expenses		
—	administrative costs	12,638	10,459
—	personnel expenses	30,186	34,320
—	depreciation expense	794	808
—	other	4,499	5,093
		<u>48,117</u>	<u>50,680</u>
e)	Other items included in the income statement		
	Foreign exchange gain	(2,441)	(389)
	Net (gain)/loss on disposal of plant and equipment	(65)	61
	Bad and doubtful debts	62	186
	Repairs and maintenance	1,466	2,130
	Amortisation	151	90

Note 4 Income Tax

		Consolidated Group	
		2010 \$000	2009 \$000
(a)	The components of income tax (benefit) / charge comprise:		
	Current Income Tax		
—	Current income tax (benefit) / charge	(1,332)	8,785
	Deferred Income Tax		
—	In relation to originating and reversing temporary differences	772	131
	Income tax (benefit) / charge reported in the Income Statement	<u>(560)</u>	<u>8,916</u>

		Consolidated Group	
		2010 \$000	2009 \$000
(b)	The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax (benefit) / charge as follows:		
	Profit before income tax	289	29,887
	Prima facie tax (benefit) / charge on profit from ordinary activities before income tax at 30% (2009: 30%)	87	8,966
	Tax effect of amounts which are not deductible / (taxable) in calculating taxable		
	— Share based payments	256	343
	— Interest on contingent consideration	495	763
	— Research & Development tax concession	(241)	(480)
	— Other	(1,120)	(930)
		<u>(523)</u>	<u>8,662</u>
	Other Reconciling Items:		
	— Current year tax losses not recognised	179	715
	— Adjustments for prior years	(1,235)	(25)
	— Withholding tax in non-Australian jurisdictions	533	10
	— Differences due to foreign income tax rates	486	(446)
	Income tax (benefit) / charge reported in the Income Statement	<u>(560)</u>	<u>8,916</u>
	The applicable weighted average effective tax rates are as follows:	-194%	30%
(c)	Tax Consolidation Legislation		
	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. No significant income tax adjustments have been identified upon entry into the tax consolidation regime.		
(d)	Income tax (benefit) / charge booked in Equity		
	— Capital raising costs	(458)	(211)
	— Foreign exchange booked to hedge reserve	(568)	
		<u>(1,026)</u>	<u>(211)</u>

(e) Tax Rates

The tax rates used in the tax reconciliation is the corporate tax rate of 30% (2008 30%) payable by Australian corporate entities on taxable profits under Australian tax law.

Through its wholly owned foreign subsidiaries and branch, Neptune is subject to a variety of income tax rates. The income tax rates of the foreign jurisdictions where Neptune has significant exposure is set out below:

—	United Kingdom	28% (2009 - 28%)
—	Singapore	17% (2009 - 28%)
—	United States	35% (2009 - 35%)
—	Qatar	10% (2009 - Not Applicable)

		Consolidated Group	
		2010	2009
		\$000	\$000
(f)	Tax losses		
	Unused tax losses for which no deferred tax asset has been recognised		
	— Singapore	298	2,384
	— United Kingdom	638	-
	Total unused tax losses for which no deferred tax asset has been recognised	936	2,384
	Potential tax benefit (Singapore - 17%, United Kingdom - 28%)	229	405

Note 5 Director and Key Management Personnel Compensation

- (a) Names and positions held of the group and parent entity key management personnel in office at any time during the financial year are:

Directors

Mr Ross Kennan
Mr David Agostini
Mr Geoff Newman
Mr Robert Scott
Mr Christian Lange

Position

Non Executive Director
Non Executive Director
Non Executive Director
Non Executive Director
Chief Executive Officer and Managing Director

Key Management Personnel

Mr Geoffrey Edwards
Mr David Husband
Mr Mark Lindsay
Mr Russell Collins
Mr Lodewijk van Wachem
Mr Benoit Barbier
Mr Kenneth Nimitz

Chief Financial Officer
Group Vice President - Engineering
Group Vice President - Offshore
Group Vice President - Communication
Regional Vice President – Europe, Mediterranean and Africa
Regional Vice President – Asia and Middle East
Regional Vice President - North and South America

- (b) Refer to Remuneration Report contained in the Directors' Report for details of remuneration paid or payable to each member of the Group's key

		Consolidated Group	
		2010	2009
		\$000	\$000
	Short term employee benefits	2,933	3,615
	Post employment benefits	215	202
	Other long-term benefits	-	-
	Share based payments	392	601
		3,540	4,418

(c) Options Holdings

Number of options held by key management personnel

	Balance 1 July 2009	Granted as Compensation	Options Exercised	Net Change Other	Balance 30 June 2010	Total Vested 30 June 2010	Total Exercisable 30 June 2010	Total Unexercisable 30 June 2010
2010								
Mr David Agostini	200,000	-	-	-	200,000	200,000	200,000	-
Mr Christian Lange	7,000,000	-	-	-	7,000,000	5,000,000	5,000,000	2,000,000
Key Management Personnel								
Mr Geoffrey Edwards	1,300,000	-	-	-	1,300,000	683,333	683,333	616,667
Mr Lodewijk van Wachem	-	400,000	-	-	400,000	-	-	400,000
Mr Kenneth Nimitz	-	400,000	-	-	400,000	-	-	400,000
	8,500,000	800,000	-	-	9,300,000	5,883,333	5,883,333	3,416,667
	Balance 1 July 2008	Granted as Compensation	Options Exercised	Net Change Other	Balance 30 June 2009	Total Vested 30 June 2009	Total Exercisable 30 June 2009	Total Unexercisable 30 June 2009
2009								
Mr David Agostini	200,000	-	-	-	200,000	200,000	200,000	-
Mr Christian Lange	4,000,000	3,000,000	-	-	7,000,000	4,000,000	4,000,000	3,000,000
Mr Geoffrey Edwards	900,000	400,000	-	-	1,300,000	325,000	325,000	975,000
	5,100,000	3,400,000	-	-	8,500,000	4,525,000	4,525,000	3,975,000

Note that Christian Lange, Geoff Edwards, Ross Kennan, Geoff Newman, Robert Scott, David Agostini, David Husband, Mark Lindsay, Russell Collins and Benoit Barbier have not been granted any options.

(d) Shareholdings

Number of Shares held by Key Management Personnel

	Balance 1 July 2009	Received as Compensation	Options Exercised	Net Change Other*	Balance 30 June 2010
2010					
Directors					
Mr Ross Kennan	190,047	33,404	-	300,000	523,451
Mr David Agostini	135,120	16,702	-	10,000	161,822
Mr Geoff Newman	26,786	16,702	-	15,000	58,488
Mr Robert Scott	96,892	16,702	-	30,000	143,594
Mr Christian Lange	429,267	-	-	130,000	559,267
Key Management Personnel					-
Mr Geoffrey Edwards	106,321	-	-	28,000	134,321
Mr David Husband	4,424,858	-	-	1,929,804	6,354,662
Mr Mark Lindsay	4,052,487	-	-	1,409,250	5,461,737
Mr Russell Collins	4,519,288	-	-	(277,682)	4,241,606
	13,981,066	83,510	-	3,574,372	17,638,948

	Balance 1 July 2008	Received as Compensation	Options Exercised	Net Change Other*	Balance 30 June 2009
2009					
Directors					
Mr Ross Kennan	118,618	71,429	-	-	190,047
Mr David Agostini	63,691	35,715	-	35,714	135,120
Ms Cathryn Curtin	133,230	17,857	-	-	151,087
Mr Geoff Newman	-	26,786	-	-	26,786
Mr Robert Scott	61,178	35,714	-	-	96,892
Mr Christian Lange	429,267	-	-	-	429,267
Key Management Personnel					
Mr Geoffrey Edwards	88,567	-	-	17,754	106,321
Mr David Husband	2,837,573	-	-	1,587,285	4,424,858
Mr Mark Lindsay	2,928,109	-	-	1,124,378	4,052,487
Mr Russell Collins	2,887,573	-	-	1,631,715	4,519,288
	<u>9,547,806</u>	<u>187,501</u>	<u>-</u>	<u>4,396,846</u>	<u>14,132,153</u>

Note that Lodewijk van Wachem, Benoit Barbier and Kenneth Nimitz have not been granted any shares.

* 'Net change other' refers to shares purchased, sold or granted as part of an acquisition during the financial year.

During the year, equipment rental of \$242,000 was paid to the owners of the equipment of which Mr Russell Collins is a 33% owner.

Note 6 Auditors' Remuneration

	Consolidated Group 2010	2009
Remuneration of the auditor of the parent entity for:		
— auditing or reviewing the financial report	212,000	-
— Other services	<u>283,000</u>	<u>-</u>
	<u>495,000</u>	<u>-</u>
Remuneration of previous auditor of the parent entity for:		
— auditing or reviewing the financial report	<u>-</u>	<u>323,000</u>
Remuneration of other auditors of subsidiaries for:		
— auditing or reviewing the financial report of subsidiaries	<u>153,000</u>	<u>134,000</u>

Note 7 Dividends

No dividends have been provided for or paid during the year 1 July 2009 to 30 June 2010.

Note 8 Earnings per Share

	Consolidated Group 2010	2009
Basic earnings per share (cents)	0.20	6.94
Diluted earnings per share (cents)	0.20	6.85
(a) Profit used in the calculation of basic and diluted earnings per share	<u>849</u>	<u>20,971</u>
(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	No. 418,066,720	No. 302,274,954
Dilutive effect of options	<u>8,254,111</u>	<u>3,959,292</u>
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	<u>426,320,831</u>	<u>306,234,246</u>

For the year ended 30 June 2010 there were 10,469,850 options on issue that were not dilutive

Since reporting date, there have been 8,717,937 ordinary shares or potential ordinary shares issued that would change the number of ordinary shares or potential ordinary shares outstanding, however this would have minimal impact on EPS if they were issued at the balance date.

Note 9 Cash and Cash Equivalents

	Consolidated Group	
	2010	2009
	\$000	\$000
Cash at bank and in hand	9,992	14,751
Deposits (1)	<u>11,789</u>	<u>9,526</u>
	<u>21,781</u>	<u>24,277</u>
Reconciliation of cash and cash equivalents		
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:		
Cash and cash equivalents	<u>21,781</u>	<u>24,277</u>
	<u>21,781</u>	<u>24,277</u>

(1) Deposits are held on short-term accounts rolling over quarterly.

Note 10 Trade and Other Receivables

	Consolidated Group	
	2010	2009
	\$000	\$000
CURRENT		
Trade receivables (a)	<u>40,136</u>	<u>34,542</u>
	<u>40,136</u>	<u>34,542</u>
Other receivables	476	3,839
Deposits for Bank Guarantee (b)	1,967	-
Less: Allowance for doubtful amounts - other receivables	<u>-</u>	<u>(26)</u>
	<u>42,579</u>	<u>38,355</u>
NON-CURRENT		
Deposits for Security deposit (b)	29	998
Deposits for Bank Guarantee (b)	<u>2,517</u>	<u>-</u>
	<u>2,546</u>	<u>998</u>

(a) Trade Receivables are non interest bearing and are generally on 30-60 day terms - due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

(b) All deposits and guarantees are held in AA & A+ credit rated (S&P) banks. Interest is earned based on variable interest rates and their fair value approximates their carrying value.

Note 11 Inventories

	Consolidated Group	
	2010	2009
	\$000	\$000
CURRENT		
At cost		
Work in progress	4,916	4,012
Finished goods	<u>798</u>	<u>590</u>
	<u>5,714</u>	<u>4,602</u>

Note 12 Controlled Entities**(a) Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%) *	
		2010	2009
Parent Entity:			
Neptune Marine Services Limited	Australia		
Subsidiaries of Neptune Marine Services Limited			
Neptune Diving Services Pty Ltd	Australia	100.00%	100.00%
Neptune Marine Services International Pty Ltd	Australia	100.00%	100.00%
Linkweld Engineering Pty Ltd	Australia	100.00%	100.00%
Subsea Developments (Australasia) Pty Ltd	Australia	100.00%	100.00%
US Underwater Services LLC	United States of America	100.00%	100.00%
Neptune Delaware Holdings Inc	United States of America	100.00%	100.00%
US Underwater Management LLC	United States of America	100.00%	100.00%
US Underwater Services LP	United States of America	100.00%	100.00%
Tri-Surv Geomatics Pty Ltd (trading as Neptune Geomatics Limited)	Australia	100.00%	100.00%
Neptune Marine Europe (APS)**	Denmark	100.00%	100.00%
Tri-Surv Deepwater Pty Ltd	Australia	100.00%	100.00%
Sea-Struct Pty Ltd	Australia	100.00%	100.00%
Neptune Scotland Holdings Ltd	United Kingdom	100.00%	100.00%
Neptune Deeptech Limited	United Kingdom	100.00%	100.00%
Neptune Deeptech Symons Ltd	United Kingdom	100.00%	100.00%
Neptune Asia Holdings Pte Ltd	Singapore	100.00%	100.00%
Neptune Marine Pacific Pte Ltd	Singapore	100.00%	100.00%
Sea-Struct International Pte Ltd	Singapore	100.00%	100.00%
PT Sea-Struct Indonesia	Indonesia	100.00%	100.00%
Access Management (WA) Pty Ltd (trading as Neptune Asset IRM Limited)	Australia	100.00%	100.00%
Access Management Pte Ltd (trading as Neptune Access IRM Pte Ltd)	Singapore	100.00%	100.00%
Neptune Marine Offshore Pte Ltd	Singapore	100.00%	100.00%
Neptune Subsea Engineering Ltd	United Kingdom	100.00%	100.00%
Submersible Technology Services (Holdings) Ltd	United Kingdom	100.00%	0.00%

* Percentage of voting power is in proportion to ownership

** Neptune Marine Europe (APS) was de-registered on 16th July 2010

(b) Acquisition of Controlled Entities

Details of the acquisitions of controlled entities during the year ended 30 June 2010 can be found at Note 32 'Business Combinations'.

Note 13 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 year.

	Office Furniture, Equipment & Software \$000	Leasehold Improvements \$000	Plant and Equipment \$000	Leased Vehicle \$000	ROV's and Vessel \$000	Construction in Progress \$000	Total \$000
Consolidated Group:							
Balance at 1 July 2008	1,149	308	8,665	784	12,161	-	23,067
Additions	539	659	3,045	311	44,515	130	49,199
Disposals	(43)	-	(65)	(121)	-	(92)	(321)
Transfers	-	-	(23)	23	-	-	-
Additions through acquisition of entities	689	-	-	80	-	-	769
Depreciation expense	(393)	(181)	(2,142)	(235)	(4,300)	-	(7,251)
Foreign exchange	(367)	19	639	90	3,453	(20)	3,814
Balance at 30 June 2009	1,574	805	10,119	932	55,829	18	69,277
Additions	1,522	1,688	5,744	74	4,912	72	14,012
Disposals	(32)	(1)	(125)	(64)	-	-	(222)
Transfers	(4)	-	9,464	-	(9,460)	-	-
Additions through acquisition of entities	44	-	542	3	8,844	-	9,433
Depreciation expense	(546)	(277)	(2,426)	(168)	(3,915)	-	(7,332)
Foreign exchange	(39)	(11)	(343)	(26)	(2,364)	(1)	(2,784)
At 30 June 2010	2,519	2,204	22,975	751	53,846	89	82,384
Cost	4,518	2,664	32,185	1,389	66,817	89	107,662
Accumulated amortisation	(1,999)	(460)	(9,210)	(638)	(12,971)	-	(25,278)
Net carrying amount	2,519	2,204	22,975	751	53,846	89	82,384
At 30 June 2009	1,574	805	10,119	932	55,829	18	69,277
Cost	3,020	1,088	15,865	1,478	59,721	18	81,190
Accumulated amortisation	(1,446)	(283)	(5,746)	(546)	(3,892)	-	(11,913)
Net carrying amount	1,574	805	10,119	932	55,829	18	69,277

At 30 June 2010, Neptune had a term loan \$20,100,000 from the National Australia Bank. The loan was used to finance the purchase of the Nor Sea vessel. The loan is secured through registered mortgages over two vessels known as the Trident and ROV Supporter, as well as fixed and floating charges over the assets of the Neptune Companies.

Neptune has entered into finance leases for two of its Dive Support Vessels. These loan facilities are secured through registered charges over the two Dive Support Vessels.

Note 14 Intangible Assets and Goodwill

	Consolidated Group	
	2010	2009
	\$000	\$000
Goodwill		
Cost less impairment losses	<u>161,726</u>	<u>144,267</u>
Development costs		
Cost	2,586	1,633
Accumulated amortisation	<u>(241)</u>	<u>(90)</u>
Net carrying value	<u>2,345</u>	<u>1,543</u>
Total intangibles and goodwill	<u>164,071</u>	<u>145,810</u>
Movements		
	Consolidated Group	
	2010	2009
	\$000	\$000
Goodwill		
Balance at 1 July 2009	144,267	113,336
Arising on acquisitions during the year	23,513	22,867
Operational Increase in earn outs	208	3,679
Reduction in contingent payments	-	(747)
Foreign exchange differences	<u>(6,262)</u>	<u>5,132</u>
Balance at 30 June 2010	<u>161,726</u>	<u>144,267</u>
Development costs		
Balance at 1 July 2009	1,543	1,440
Acquisitions	1,043	193
Amortisation	<u>(241)</u>	<u>(90)</u>
Balance at 30 June 2010	<u>2,345</u>	<u>1,543</u>
Total Intangible Assets	<u>164,071</u>	<u>145,810</u>

Intangible assets, other than goodwill have finite useful lives. The current amortisation charges in respect of intangible assets is disclosed under Note 3. Amortisation of intangible assets is included within technical expenses in the income statement. The remaining amortisation period of the development costs is 16 years. Goodwill has an infinite life and is tested annually for impairment at 30 June.

The recoverable amount of each Cash Generating Unit (CGU) is determined based on a value-in-use calculation. These calculations use cash flow projections based on financial budgets approved by the Board covering a one year period. Cash flows beyond the one year period are extrapolated using a 3% growth rate per year over 4 years and a Consumer Price Index (CPI) escalation of 3% over 15 years. Pre-tax, risk adjusted discount rates have been applied to these cash flow projections in different regions ranging from 15.81%-18.94% (2009:11.09%). The growth rates have been determined with reference to long term consumer price indices.

Management determined budgeted earnings before interest, tax, depreciation and amortisation (EBITDA) based on past performance (excluding the loss on Woodside Pluto and the unusual low activity in US Diving) and its expectations of the future. 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 and adjusted for country and business risk for each unit. The growth rate of 3% used is considered conservative by management compared with its expectations and the strength of the Oil and Gas Industry and has been used only for impairment testing.

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.

Goodwill of \$10.205 million relating to Subsea Development Associates, has been allocated to the following CGU's Geomatics, Diving, Subsea Stabilisation, and Fabrication.

Carrying amount of goodwill allocated to each of the cash generating units

	Consolidated	
	30 June 2010	30 June 2009
	\$000	\$000
Carrying amount of goodwill	161,726	144,267
Allocation to cost generating units:		
Survey	33,080	33,074
Subsea Stabilisation	25,040	24,000
Diving	28,649	29,493
Remotely Operated Vehicles (ROVs)	22,956	-
Fabrication	23,264	25,787
Others	<u>28,737</u>	<u>31,912</u>
	<u>161,726</u>	<u>144,267</u>

Impact of possible changes in key assumptions

Management and the Board do not consider that a reasonably possible change in any of the key assumptions would materially impact the assessment of impairment for any CGU.

Assuming all other assumptions remain constant but the pre-tax discount rate is increased by 1.68%, no CGU would be impaired.

Assuming all other assumptions remain constant but the growth rate drops by 3% per annum and CPI rate drops by 0.7%, no CGU would be impaired.

Note 15 Other Assets

	Consolidated Group	
	2010	2009
	\$000	\$000
CURRENT		
Prepayments	3,338	2,226
Deposits	208	46
Unbilled revenue	2,672	11
Other assets	11	14
	<u>6,229</u>	<u>2,297</u>
NON-CURRENT		
Prepayments	84	339

Note 16 Trade and Other Payables

	Consolidated Group	
	2010	2009
	\$000	\$000
CURRENT		
Unsecured liabilities		
Trade payables	14,091	16,362
Sundry payables and accrued expenses	12,922	12,096
Deferred consideration	14,949	18,207
	<u>41,962</u>	<u>46,665</u>
NON-CURRENT		
Unsecured liabilities		
Deferred consideration	2,876	12,717
	<u>2,876</u>	<u>12,717</u>

- (a) 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.

- (b) Contingent consideration represents the value of contingent consideration resulting from meeting an earnings target expected to be paid in line with the related acquisitions. These are revised at each reporting date based on revised expectations of meeting the earnings target.

Contingent consideration is made up of an estimate of 72% to be settled in cash and 28% in shares to vendors of the acquired subsidiaries based on meeting expected target that is discounted to account for the time value of money and interest expense. The number of shares to be issued is determined on the fair value at date of settlement. The interest expense has been brought to account in the income statement, and amounts to \$1,977,000 for the year ended 30 June 2010 (2009: \$2,545,000).

Note 17 Financial Liabilities

	Note	Consolidated Group	
		2010	2009
		\$000	\$000
CURRENT			
Unsecured liabilities			
Hire purchase liability	23	1,691	1,243
Other		-	-
		<u>1,691</u>	<u>1,243</u>
Secured liabilities			
Bank loans	17 (b), (c)	31,248	7,759
Debtors facility	17 (b), (c)	6,309	3,833
		<u>37,557</u>	<u>11,592</u>
		<u>39,248</u>	<u>12,835</u>
NON-CURRENT			
Unsecured liabilities			
Hire purchase liabilities	23	922	566
Other	17 (a)	178	-
		<u>1,100</u>	<u>566</u>
Secured liabilities			
Bank loans	17 (b), (c)	18,659	23,769
		<u>18,659</u>	<u>23,769</u>
		<u>19,759</u>	<u>24,335</u>

(a) The bank loans are secured by charge over the assets of the parent entity and the subsidiaries.

- (b) (i) At 30 June 2010, Neptune had a term loan \$20,100,000 from the National Australia Bank at bank bill rate plus a margin of 1.9%. The loan was used to finance the purchase of the Nor Sea vessel. The loan is secured through registered mortgages over two vessels known as the Trident and ROV Supporter, as well as fixed and floating charges over the assets of the Neptune Companies. The loan is repayable by instalments of \$700,000 per quarter until 30th September 2011. The remaining portion of the loan is payable as a balloon payment at maturity. During the year the company repaid \$2,800,000 of the facility.
- (ii) At 30 June 2010, Neptune had a term loan GBP 1,750,000 from the National Australia Bank at overseas currency rate plus a margin of 2.5%. The loan was used to fund the purchase of Neptune Subsea Engineering Ltd, a UK based acquisition. The loan is secured through fixed and floating charges over the assets of the Neptune Companies. The loan is repayable by instalments of GBP 250,000 per quarter until 31st December 2011. The remaining portion of the loan is payable at maturity. During the year the company repaid GBP 1,000,000 against this loan.
- (iii) At 30 June 2010, Neptune had outstanding borrowings of \$6,309,387 from the National Australia Bank under an existing short term debtor facility at lending indicator rate plus a margin of 1.5%. The loan is repayable by 30th September 2011. During the year the company repaid \$1,090,613 towards this facility.
- (iv) During the financial year USA Subsidiary US Underwater Services fully repaid their term loan of USD 2,284,781 with Fifth Third Bank.
- (v) On 20 November 2009, Neptune borrowed GBP 15,000,000 under a bridging facility from the National Australia Bank at bank bill rate plus a margin of 4.69%. The loan was used to finance the purchase of Submersible Technology Services Ltd, a UK based acquisition. The loan is secured through fixed and floating charges over the assets of the Neptune Companies. None of this loan was repaid during the financial year. Since balance date, the bridging facility's repayment date was extended to 15 October 2010. The company is currently in negotiations with its bankers, National Australia Bank to refinance its facilities.

The bank loans are subject to various covenants which were renegotiated on the 29 June 2010 and the financial covenants were waived at 30 June 2010.

- (c) Fair value - due to the loans being at variable rates of interest, the carrying value approximates the fair value.

Note 18 Tax

	Consolidated Group	
	2010	2009
	\$000	\$000
The component of tax disclosed on the balance sheet are as follows:		
Assets		
Current tax asset	1,983	-
Deferred tax asset	2,111	4,299
Liabilities		
Current tax liability	-	6,781
Deferred tax liability	2,757	2,620

	Opening Balance \$000	Charged directly to the Income Statement \$000	Charged directly to Equity \$000	Acquisitions / Disposals \$000	Not previously recognised \$000	Other Adjustment \$000	Closing Balance \$000
2010							
Consolidated Group							
Deferred Tax Asset							
Provisions	248	169	-	-	-	1	418
Foreign Exchange	9	(109)	568	-	-	-	468
Accruals	1,757	(92)	-	-	-	22	1,687
Transaction costs on equity issue	1,009	(1)	458	-	-	(474)	992
Property, Plant and Equipment	18	(18)	-	-	-	-	0
Intangible Assets	27	(27)	-	-	-	-	0
Unused tax losses	1,216	637	-	-	-	57	1,910
Borrowing Costs	-	16	-	-	-	-	16
Other	15	(9)	-	-	-	1	7
Balance as at 30 June 2010	4,299	566	1,026	-	-	393	5,498

Offset against Deferred Tax Liabilities - (3,387)

Net Deferred Tax Asset 4,299 2,111

	Opening Balance \$000	Charged directly to the Income Statement \$000	Charged directly to Equity \$000	Acquisitions / Disposals \$000	Not previously recognised \$000	Other Adjustment \$000	Closing Balance \$000
2010							
Consolidated Group							
Deferred Tax Liability							
Provisions	5	(5)	-	-	-	-	-
Property, Plant and Equipment	675	1,464	-	-	-	(11)	2,128
Goodwill	1,483	330	-	-	-	21	1,834
Prepayments	57	74	-	-	-	-	131
Other	400	(525)	-	1,860	-	316	2,051
Balance as at 30 June 2010	2,620	1,338	-	1,860	-	326	6,144

Offset against Deferred Tax Assets - (3,387)

Net Deferred Tax Liability 2,620 2,757

	Opening Balance \$000	Charged to Income \$000	Charged directly to Equity \$000	Acquisitions / Disposals \$000	Not previously recognised \$000	Other Adjustment \$000	Closing Balance \$000
2009							
Consolidated Group							
Deferred Tax Asset							
Provisions	154	104	-	21	(22)	-	257
Accruals	201	1,608	-	20	(72)	-	1,757
Transaction costs on equity issue	1,184	(386)	211	-	-	-	1,009
Property, Plant and Equipment	91	-	-	-	(73)	-	18
Intangible Assets	-	27	-	-	-	-	27
Unused tax losses	-	(271)	-	-	1,487	-	1,216
Other	-	(391)	-	-	406	-	15
Balance as at 30 June 2009	1,630	691	211	41	1,726	-	4,299

Offset against DTL - -

Net DTA 1,630 4,299

	Opening Balance \$000	Charged to Income \$000	Charged directly to Equity \$000	Acquisitions / Disposals \$000	Not previously recognised \$000	Other Adjustment \$000	Closing Balance \$000
2009							
Consolidated Group							
Deferred Tax Liability							
Provisions	-	5	-	-	-	-	5
Property, Plant and Equipment	297	99	-	9	270	-	675
Intangible Assets	-	675	-	-	808	-	1,483
Other	-	217	-	-	240	-	457
Balance as at 30 June 2009	297	996	-	9	1,318	-	2,620

Offset against DTL - -

Net DTA 297 2,620

Note 19 Provisions

	Consolidated Group	
	2010 \$000	2009 \$000
CURRENT		
Provision for employee entitlements (a)	1,505	1,888
Total provisions	<u>1,505</u>	<u>1,888</u>

(a) Provision for employee entitlements relate to annual leave and long service leave.

Note 20 Derivative financial instruments

	Consolidated Group	
	2010 \$000	2009 \$000
Current liabilities		
Interest rate swap (Refer Note 31)	- 135	205
	<u>135</u>	<u>205</u>
Non-current liabilities		
Interest rate swap (Refer Note 31)	45	275
	<u>45</u>	<u>275</u>
	<u>180</u>	<u>480</u>

Interest rate swap was not initially designated as an accounting hedge at inception. Gains and losses arising from changes in fair value are recorded in the income statement.

Note 21 Issued Capital

(a) Ordinary Shares	No.	2010	2009
		\$	\$
At 1 July 2008	292,737,786		139,404,964
Movements during the prior year			
— Vendor shares	17,397,024	-	6,804,947
— Exercise of options	285,450	-	15,040
— Non-Executive Director (NED) share plan	223,214	-	62,500
— Placement	24,000,000	-	12,000,000
Less transaction costs for capital raising			(554,818)
Balance at 30 June 2009	334,643,474	157,732,633	157,732,633
Movements during the current year			
— Placement	82,310,450	41,155,225	-
— Vendor shares	18,125,847	7,878,759	-
— NED share plan	83,510	50,000	-
— Exercise of options	293,333	49,933	-
Less transaction costs for capital raising		(1,062,241)	-
At 30 June 2010	<u>435,456,614</u>	<u>205,804,309</u>	<u>157,732,633</u>

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Options

- (i) For information relating to the Neptune Marine Services Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end. Refer to Note 27.
- (ii) For information relating to share options issued to key management personnel during the financial year. Refer to Note 27.

(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.

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 30 June 2010 and 30 June 2009 are as follows:

	Note	Consolidated Group	
		2010	2009
		\$	\$
Total borrowings	17	59,007	37,170
Less cash and cash equivalents	9	(21,781)	(24,277)
Net debt		<u>37,226</u>	<u>12,893</u>
Total equity		<u>221,194</u>	<u>181,933</u>
Total capital		<u><u>258,420</u></u>	<u><u>194,826</u></u>
Gearing ratio		14%	7%

Note 22 Reserves

	Note	Consolidated Group	
		2010	2009
		\$	\$
Reserves			
Foreign currency translation reserve	1(j)	(7,473)	1,714
Option reserve		6,120	5,267
Hedge reserve		<u>(1,325)</u>	<u>-</u>
		<u><u>(2,678)</u></u>	<u><u>6,981</u></u>
Movements:			
<i>Foreign currency translation reserve</i>			
Balance at 1 July		1,714	(6,196)
Currency translation difference arising during the year		<u>(9,187)</u>	<u>7,910</u>
Balance at 30 June		<u><u>(7,473)</u></u>	<u><u>1,714</u></u>
<i>Option reserve</i>			
Balance at 1 July		5,267	4,124
Cost of options issued to employees		<u>853</u>	<u>1,143</u>
Balance at 30 June		<u><u>6,120</u></u>	<u><u>5,267</u></u>
<i>Hedge reserve</i>			
Balance at 1 July		-	-
Cost of options issued to employees		<u>(1,325)</u>	<u>-</u>
Balance at 30 June		<u><u>(1,325)</u></u>	<u><u>-</u></u>

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.

Option 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 27 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 23 Capital and Leasing Commitments

	Note	Consolidated Group	
		2010	2009
		\$	\$
(a) Finance Lease Commitments			
Payable — minimum lease payments			
— not later than 12 months		1,607	1,278
— between 12 months and 5 years		1,048	580
— greater than 5 years		-	-
Minimum lease payments		<u>2,655</u>	<u>1,858</u>
Less future finance charges		(42)	(49)
Present value of minimum lease payments	17	<u>2,613</u>	<u>1,809</u>

The finance leases relate to leased vehicles and the leasehold improvement of premises for Neptune Marine Services Limited and several of the subsidiaries. All finance leases will be settled within the next 5 years. The carrying value of finance leases and hire purchase contracts for various items of plant and machinery is \$2,614,000 (2009: \$1,052,000). There are no restrictions placed upon the lessee by entering into these leases.

		Consolidated Group	
		2010	2009
		\$	\$
(b) Operating Lease Commitments			
Non-cancellable operating leases contracted for but not capitalised in the financial statements			
Payable — minimum lease payments			
— not later than 12 months		2,666	2,375
— between 12 months and 5 years		7,619	6,585
— greater than 5 years		-	1,530
		<u>10,285</u>	<u>10,490</u>

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 six years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. The amount recognised in the income statement for operating lease rentals in 2010 was \$4,797,000 (2009: \$4,544,000).

(c) Capital Expenditure Commitments

At 30 June 2010, the parent entity had a contractual commitment for the acquisition of a Dive Compression Chamber of \$550,000.

Note 24 Contingent Liabilities and Contingent Assets

(a) The consolidated group of Neptune Marine Services at 30 June 2010 has a contingent liability in relation to legal proceedings brought against its group entity US Underwater Services LP, whereby some former employees have brought claims arising out of their employment. The amounts of these claims have not been ascertained and are currently being defended.

(b) Guarantees

The group has provided the following non-financial guarantees to its business associates which commits the group to make payments on behalf of these entities upon failure to perform under the terms of the relevant contracts.

— Performance guarantees	3,000	924
— Guarantees related to leases	552	548
— Bid Bond	1,967	-
— Letter of credit	<u>3,532</u>	<u>-</u>
	<u>9,051</u>	<u>1,472</u>

The guarantees related to leases are secured by cash.

Note 25 Segment Reporting**Identification of Reportable Segments**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

Neptune Marine Services comprises the two distinct divisions of Offshore Services and Engineering Services. Globally, the company has operational bases in Australia, South East Asia, Qatar, the United States and the United Kingdom. The services provided to customers are on a Offshore and Engineering basis and can combine services from multiple regions.

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 platform; DP construction support vessels; remotely operated vehicles (ROVs); subsea pipeline/cable stabilisation and protection; hydrographic surveying, positioning and geophysical support; and project management.

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 1 to the accounts.

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.

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.

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:

- Fair value gains/(losses) on interest rate swap
- Finance costs
- Other revenue - Interest
- Corporate overhead & administration expenses
- Technical expenses
- Share-based payments
- Finance costs - deferred payments (inferred)
- Foreign exchange gain/(loss)
- Deferred tax assets
- Intangibles
- Goodwill

The following table presents revenue and profit information for reportable segments for the years ended 30 June 2010 and 30 June 2009.

	Engineering		Offshore Services		Total	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	\$000	\$000	\$000	\$000	\$000	\$000
Year ended 30 June 2010						
Revenue						
Sales to external customers	85,043	60,844	94,366	128,115	179,409	188,959
Intersegment sales	10,234	4,169	33,057	13,736	43,291	17,905
Total sales revenue	95,277	65,013	127,423	141,851	222,700	206,864
Intersegment elimination					(43,291)	(17,905)
Total revenue per the income statement					179,409	188,959
Result						
Segment result before items below:	7,011	7,275	12,151	41,301	19,162	48,577

Reconciliation of segment net profit before tax to net profit before tax

Fair value gain/(loss) on derivative financial instrument	300	(480)
Finance costs	(5,235)	(4,871)
Other revenue - interest	1,080	136
Corporate overhead & administration expense	(16,383)	(12,465)
Technical expenses	(223)	(256)
Share-based payments	(853)	(1,143)
Foreign exchange gain	2,441	389
Net profit before tax per the income statement	289	29,887

	Engineering		Offshore Services		Total	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	\$000	\$000	\$000	\$000	\$000	\$000
Segment assets						
Segment operating assets	37,710	29,426	125,590	110,719	163,300	140,145

Reconciliation of segment assets to the statement of financial position

Inter-segment eliminations		
Deferred tax assets	2,111	4,299
Intangibles	2,345	1,543
Goodwill	161,726	144,267
Total assets from continuing operations per the statement of financial position	329,482	290,254

Entity Wide Information

Revenue from external customers by geographical locations is detailed below .

	Segment Revenues from External Customers		Carrying Amount of Non-Current Assets	
	30 June 2010 \$000	30 June 2009 \$000	30 June 2010 \$000	30 June 2009 \$000
Australia - country of domicile	113,216	82,916	150,437	118,139
Asia and Middle East	13,420	40,326	74,136	83,460
United States of America	7,368	35,544	31,500	37,239
United Kingdom	45,405	30,173	73,409	51,416
	<u>179,409</u>	<u>188,959</u>	<u>329,482</u>	<u>290,254</u>

Major Customers

The group has a number of customers to which it provides its services. One customer accounted for 10.5% and \$18.924 million (2009: 8.4% and \$15.718 million) of external revenue. The next most significant client accounts for 6% of external revenue. In 2009, there was not one individual customer which supplied over 10% of external revenue. These revenues were included in the offshore (84%) and engineering (16%) division segments.

Note 26 Cash Flow Information

	Consolidated Group	
	2010 \$	2009 \$
(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Profit after income tax	849	20,971
Cash flow s excluded from profit attributable to operating activities		
Finance costs on discounted deferred payments	1,977	2,545
Non-cash flow s in profit		
Depreciation	7,332	7,251
Amortisation	151	90
Net (gain)/loss on disposal of plant and equipment	(65)	61
Share based payment expense	853	1,196
Foreign exchange gain	(2,441)	389
(Gain)/loss on interest rate swap	(300)	480
Borrowing costs	810	956
Changes in assets and liabilities, net of the effects of		
(Increase)/decrease in trade and term receivables	(2,726)	(17,182)
(Increase)/decrease in prepayments	241	(1,649)
(Increase)/decrease in inventories	1,199	(1,292)
(Increase)/decrease in deferred tax assets and liabilities	(1,331)	(108)
Increase/(decrease) in trade payables and accruals	2,370	15,752
Increase/(decrease) in income taxes payable	(10,254)	3,252
Increase/(decrease) in provisions	876	(439)
Increase/(decrease) in unearned revenues	(2,071)	3,153
Cash flow (used in) from operations	<u>(2,530)</u>	<u>35,426</u>
(b) Acquisition of Entities		

Details with regard to the various components including cash paid for the two entities purchased during the year can be found at note 32 'Business Combinations'.

	2010 \$	2009 \$
(c) Loan Facilities		
Loan facilities	7,400	8,632
Amount utilised	<u>(6,309)</u>	<u>(3,600)</u>
Unutilised facility	<u>1,091</u>	<u>5,032</u>
(d) Non-cash financing and investing activities		
Share-based payments (note 27)	903	1,205
(Gain)/loss on interest rate swap	<u>(300)</u>	<u>480</u>

The major facilities are summarised as follows:

Debtor finance facility - Total finance facility is for \$7,400,000 - As at 30 June 2010 \$1,091,000 was available to be utilised (30 June 2009: \$3,800,000). There is a fixed and floating charge on Australian assets as security for the portion of the facility drawn down.

Finance will be provided under all facilities provided the company and the consolidated group have not breached any borrowing requirements and the required financial ratios are met. For full details of finance facilities refer to Note 17.

Note 27 Share-based Payments

The following share-based payment arrangements existed at 30 June 2010:

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.

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

	Consolidated Group			
	2010		2009	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at the beginning of the year	17,786,250	0.52	9,345,000	0.62
Granted	1,120,000	0.69	8,765,000	0.42
Forfeited	(409,085)	1.21	(100,000)	0.82
Exercised	(173,333)	0.15	(223,750)	0.01
Outstanding at year-end	18,323,832	0.52	17,786,250	0.52
Exercisable at year-end	10,729,126	0.62	7,332,052	0.69

There were 173,333 options exercised under the incentive option scheme during the year ended 30 June 2010.

The options outstanding at 30 June 2010 had a weighted average exercise price of \$0.52 and a weighted average remaining contractual life of 3.7 years. Exercise prices range from \$0.28 to \$1.23 in respect of options outstanding at 30 June 2010.

The weighted average fair value per option granted during the year was \$0.29.

During the year options issued were calculated by using a Binomial option pricing model applying the following inputs:

Date options issued	8/09/2009	15/01/2010	5/03/2010	20/05/2010
Weighted average exercise price	\$0.59	\$0.78	\$0.62	\$0.62
Weighted average life of the option	2.56	5.00	4.92	4.81
Underlying share price	\$0.87	\$0.67	\$0.42	\$0.27
Expected share price volatility	67%	72%	72%	72%
Risk free interest rate	3.00%	3.75%	4.00%	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.

Included under employee benefits expense in the income statement is \$853,092 (2009: \$1,142,922). This relates in full, to equity-settled share-based payment transactions.

Non Executive Directors share plan

Restricted Shares are granted to Non Executive Directors (NED) under the 2007 NED Share plan approved by Shareholders at the AGM held on 19 November 2007. Shares are held under trading lock until the earlier of the lapse of a 3 year period or the date on which the NED ceases to be a director. Under the plan, NEDs, except for Board Chairman are required to take \$10,000 of their annual fees in the form of shares in the Company, while the Board Chairman is required to take \$20,000 of his annual fees in the form of shares in the Company. The shares are issued after approval by the shareholders at the AGM each year and are purchased on-market at the prevailing market share price based on a 10 day volume weighted average price.

All restricted shares granted to NEDs are ordinary shares in Neptune Marine Services Limited which confer a right of one ordinary share for every share held.

Included under employee benefits expense in the income statement is \$50,000 (2009: \$62,500). This relates in full, to equity-settled share-based payment transactions.

Note 28 Events After the Balance Sheet Date

The company is currently in negotiations with its bankers NAB to refinance the GBP 15 million bridging facility beyond 15 October 2010. The bank has confirmed its intention to agree to continue to extend the maturity date of this facility to allow for completion of refinancing or re-capitalisation.

Note 29 Related Party Transactions

There were no related party transactions during the year.

Note 30 Parent Entity Information

Information relating to Neptune Marine Services:	Consolidated Group	
	2010	2009
	\$000	\$000
Current Assets	195,855	16,645
Total Assets	323,144	240,667
Current Liabilities	(84,138)	(34,445)
Total Liabilities	(106,038)	(69,121)
Issued Capital	205,804	157,733
Retained Earnings	11,217	8,546
Reserves	85	(5,267)
Total Shareholders Equity	(217,106)	(171,546)
Profit or loss of the Parent Entity	3,080	17,167
Total comprehensive income of the parent entity	(1,630)	17,167
Lease guarantees provided by the parent entity in relation to its subsidiaries	368	250
Contingent liabilities of the parent entity	-	-
Contractual commitment for the acquisition of property, plant and equipment (Dive Compression Chamber)	550	-

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 intend to enter 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 intentional agreement on the basis that the possibility of default is remote. No significant income tax adjustments have been identified upon entry into the tax consolidation regime.

Note 31 Financial Risk Management

(a) Financial Risk Management

The Group's principal financial instruments comprise receivables, payables, bank loans and finance facilities, finance leases, hire purchases, cash and short-term deposits and derivatives.

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.

The Group enters into derivative transactions, principally interest rate swap and 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 provide economic hedges, but do not qualify for hedge accounting and are 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 and the Company hold the following financial instruments:

	Consolidated Group	
	2010	2009
	\$	\$
Financial Assets		
Cash and cash equivalents	21,781	24,277
Trade and other receivables	45,125	39,353
Total	<u>66,906</u>	<u>63,630</u>
Financial Liabilities		
Trade and other payables	44,839	59,382
Derivative financial instruments	180	480
Bank Loans	49,906	31,528
Other financial liabilities (i)	9,101	5,642
Total	<u>104,026</u>	<u>97,032</u>

(i) Financial Risks

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, and credit risk.

Interest Rate Risk

Cash and cash equivalents

The Group held its cash reserves on deposit and in cheque accounts during the year, which earned interest at rates ranging between 0% and 5.37% (2009: 0% and 7.20%) depending on account balances.

Other than cash, all the Group's financial assets are non-interest bearing.

Interest bearing liabilities

Interest bearing liabilities are comprised of hire purchase agreements of \$852,000 (2009: \$1,052,000) bank loans of \$49,406,000 (2009: \$35,361,000) and other finance arrangements of \$1,940,000 (2009: \$757,000). Refer note 17 for details.

Other than the hire purchase agreements, bank loans and other 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.

**Consolidated
30 June 2010**

	Average interest rate	Consolidated Total '000
Financial Assets		
Cash and cash equivalents		21,781
Financial liabilities		
Hire Purchase agreements (i)	7.12%	(2,613)
Bank Loans	6.55%	(49,906)
Debtors Facility (i)	6.14%	(6,309)
Other finance arrangements * (i)	5.99%	(178)
		<u>(37,225)</u>

* Other finance arrangements includes insurance funding arrangements and ERP System

30 June 2009

	Average interest rate	Consolidated Total '000
Financial Assets		
Cash and cash equivalents		24,277
Financial liabilities		
Hire Purchase agreements	9.32%	(1,809)
Bank Loans	5.09%	(31,528)
Debtors Facility	4.75%	(3,833)
Other finance arrangements *	1.95%	-
		<u>(12,893)</u>

* Other finance arrangements includes insurance funding arrangements

Interest rate swap contracts outlined in Note 31 below, with a fair value of (\$180,000) (2009: (\$480,000)), are exposed to fair value movements if interest rates change.

The Group's mix of financial assets and liabilities are exposed to Australian, United Kingdom and United States of America variable interest rate risk determined by local financial institutions.

Group Sensitivity

As at 30 June 2010, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, post-tax profit for the year would have been \$242,000 higher/lower. This would be a result of higher/lower interest revenue on deposits and higher/lower interest expense on borrowings.

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 enters into forward exchange contracts to meet some foreign currency commitments. 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.

The financial instruments exposed to movements in the GBP are:

	Consolidated Group	
	30 June 2010	30 June 2009
Cash and cash equivalents	3,936	-
Trade and other payables	(386)	-
Interest bearing loans and borrowings	(29,730)	(5,645)
Net exposure	(26,180)	(5,645)
	30 June 2010	30 June 2009
	\$000	\$000

The financial instruments exposed to movements in the USD are:

Cash and cash equivalents	7,759	-
Trade and other receivables	9,311	-
Trade and other payables	(4,207)	-
Net exposure	12,863	-

Group Sensitivity

As at 30 June 2010, the post-tax profit 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 impact on changes in equity for the year would have been \$1,859,583 higher/lower.
- if the AUD had strengthened/weakened by 10% against the USD, post-tax profit for the year would have been \$900,399 lower/higher.

As at 30 June 2009, the post-tax profit 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 impact on changes in equity for the year would have been \$395,115 higher/lower.
- if the AUD had strengthened/weakened by 10% against the USD, post-tax profit for the year would have been \$40,354 lower/higher.

Hedge of a net investment in foreign operation

Included in other loans at 30 June 2010 is a borrowing of GBP 15,000,000, which has been designated as a hedge of the GBP/AUD spot foreign exchange risk associated with its investment in the net assets of Aberdeen based, Submersible Technology Services (Holdings) Limited (STS). It is being used to hedge the Group's exposure to changes in exchange rates on the value of its net investments in the STS operations. Gains or losses on the retranslation of this borrowing, considered to be an effective hedge, are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in the subsidiaries in equity. A net loss on the hedge of the net investment of \$1,325,000 (net of tax) was recognised in other comprehensive income for the period.

There has been no hedge ineffectiveness recognised in profit or loss on this hedge.

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, as the consolidated entity deals mainly with large reputable clients, the concentration of credit risk is minimised. Management does not expect any losses as a result of counterparty default.

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

At reporting date, there was no significant concentration of credit risk at group level as all cash and cash equivalents were held in AA & A+ credit rated banks (S&P). The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the balance sheet.

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

Individual Currency	Consolidated			Past due and impaired '000	Total '000
	Current	Past due but not impaired			
	'000	'000			
	0 - 60 days	61 - 90 days	90 + days		
Australian Dollars	17,179	1,545	135	-	18,859
United States Dollars	6,816	3,748	2,555	-	13,119
Great British Pounds	2,532	335	(6)	-	2,862
European Euro	286	65	68	-	419

Australian Dollar Equivalent	Consolidated			Past due and impaired '000	Total '000
	Current	Past due but not impaired			
	'000	'000			
	0 - 60 days	61 - 90 days	90 + days		
Australian Dollars	17,179	1,545	135	-	18,859
United States Dollars	8,099	4,454	3,036	-	15,589
Great British Pounds	4,494	595	(10)	-	5,079
European Euro	415	95	99	-	609
	30.187	6.689	3.260	-	40.136

The group trades only with recognised, credit worthy parties. To date sales made to these parties have not resulted in the group being exposed to any bad debts.

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.

Financial Instruments

The table below reflects all contractual fixed pay-off's, repayments and interest from recognised financial liabilities at 30 June 2010. As such, the amounts may not reconcile to the balance sheet.

Consolidated	Within Year \$000		1 to 5 years \$000		Total \$000	
	2010	2009	2010	2009	2010	2009
Financial Liabilities:						
Bank loans and overdrafts	31,247	7,760	18,659	23,768	49,906	31,528
Debtors facility	6,309	3,833	-	-	6,309	3,833
Trade and sundry payables	44,838	59,382	-	-	44,838	59,382
Lease liabilities and other	1,692	1,243	1,101	566	2,792	1,809
Derivatives (net settled)	135	205	45	275	180	480
Liabilities	84,220	72,423	19,805	24,609	104,026	97,032

Interest rate swaps

Interest rate swap transactions are entered into by the consolidated group to exchange variable interest payment obligations to protect long-term borrowings from the risk of increasing interest rates. The consolidated group has variable interest rate debt and enters into swap contracts to pay interest at fixed rates.

The settlement dates of the swap contracts correspond with interest payment dates of the borrowings. The swap contracts require settlement of the net interest payable and are brought to account as an adjustment to borrowing costs.

At balance date, the details of interest rate swap contracts are:

	Effective Average Interest Rate		Notional Principal	
	Payable			
	2010	2009	2010	2009
	%	%	\$000	\$000
Less than 1 year	5.99%	5.99%	2,800	2,800
1 to 2 years	5.99%	5.99%	2,800	2,800
2 to 5 years	5.99%	5.99%	7,200	10,000
			<u>12,800</u>	<u>15,600</u>

(iii) **Net Fair Values**

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

	2010			
	Quoted market price (Level 1)	Valuation technique-market observable inputs (Level 2)	Valuation technique-non market observable inputs (Level 3)	Total
	\$000	\$000	\$000	\$000
Consolidated				
Financial liabilities				
Derivative instrument				
Interest rate swap	-	180	-	180
	-	180	-	180

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

There have been no transfers between Level 1 and Level 2 during the year. For financial instruments not quoted in active markets the Group uses valuation techniques. Valuation techniques use observable market inputs.

Note 32 Business Combinations**Acquisition of Submersible Technology Services (Holdings) Limited**

On 20th November, 2009, Neptune Marine Services Limited acquired Aberdeen-based Submersible Technology Services (Holdings) Limited (STS), a leading provider of remotely operated vehicles ("ROV") and survey support services to the offshore oil and gas industry. Neptune acquired 100% of the issued capital of STS for GBP16 million (approximately AUD \$29.09 million*) (plus an adjustment for STS working capital less debt at completion of the acquisition) with added conditional consideration based on STS's EBITDA performance for the calendar year 2009 and there are no further deferred settlement amounts payable. Approximately 95% of the acquisition price was paid in cash with the balance via the issue of 1,530,811 fully paid ordinary shares at \$0.787, representing market price at date of acquisition. The shares were issued to the vendors Bill Rodger, Barry Stewart and Graeme Welsh personally, and will be held in voluntary holding lock until 20 November 2010. Under the terms of the agreement, STS senior management Bill Rodger and Barry Stewart and all full time employees will remain with the business to help drive its future growth and development.

*Foreign exchange rate of \$1.818 as at 20 November 2009 for GBP1 : British Pound equivalent

The acquisition of STS will accelerate Neptune's scale and geographic spread in the ROV market, enabling Neptune to provide operators in the international oil and gas industry with a full range of support services across the areas of exploration drilling, pipeline and cable survey and inspection, subsea construction and platform inspection and maintenance. The addition of STS will also complement the specialised subsea capabilities of our established UK businesses, will provide opportunities for leveraging across the global business, will add to our growing blue chip customer base and will significantly boost Neptune's presence in Aberdeen.

The Group has provisionally recognised the fair values of the identifiable assets and liabilities of Submersible Technology Services (Holdings) Limited based upon the best information available as of the reporting date. The accounting is still provisional at reporting date as there is an agreement with the vendor in relation to collectability of certain trade receivables that has not been finalised. Provisional business combination accounting is as follows:

Consolidated		
	Provisional Fair Value at acquisition date on acquisition	Carrying value
	\$000	\$000
Cash and cash equivalents	3,525	3,525
Trade and other receivables	9,326	9,326
Plant and equipment	9,433	9,433
	<u>22,284</u>	<u>22,284</u>
Trade and other payables	(2,485)	(2,485)
Tax liabilities	(4,247)	(4,247)
Intercompany loans	(7,232)	(7,232)
	<u>(13,964)</u>	<u>(13,964)</u>
Provisional fair value of identifiable net assets	8,320	
Goodwill arising on acquisition	23,508	
	<u>31,828</u>	
Cost of combination:		
Shares issued, at fair value	1,205	
Cash paid	24,482	
Contingent consideration (outstanding)	1,422	
Contingent consideration (paid)	4,719	
Total cost of the combination	<u>31,828</u>	
The cash outflow on acquisition is as		
Cash paid	(24,482)	
Contingent consideration (paid)	(4,719)	
Net cash acquired with the subsidiary	3,525	
Net consolidated cash outflow	<u>(25,676)</u>	

From the date of acquisition, Submersible Technology Services Limited has contributed revenue and profit before tax (excluding corporate overheads) of \$4,882,925 and \$1,271,428 respectively to the Group. Had the acquisition of STS occurred at the beginning of the reporting period, the consolidated statement of comprehensive income would have included revenue and profit of \$10,351,582 and \$2,801,911 respectively. Direct costs relating to acquisition have been expensed in line with the change in accounting standards (\$0.7M) and is included within corporate and administrative expenses.

Key factors contributing to the goodwill balance of \$23.508 million are the synergies existing within the acquired business, and synergies expected to be achieved as a result of combining Submersible Technology Services (Holdings) Limited with the rest of the Group.

Included in the business acquired were trade receivables with a gross contractual and fair value of \$8,410,000 resulting from trade sales with customers. Management expects these amounts to be collected in full and converted to cash. The outstanding receivables pertaining to acquired receivables at balance sheet date is \$1,200,000 which is expected to be collected in full as there is an agreement with the vendor that has not been finalised.

(a) Contingent consideration – prior period acquisitions

During the period 1 July 2009 to 30 June 2010, the following are the movements in deferred consideration:

During the period 1 July 2009 to 30 June 2010, the following are the movements in deferred consideration:

Contingent consideration	30 June 2010 \$000	30 June 2009 \$000
Balance at 1 July 2009	30,922	27,387
Acquisitions	6,141	9,212
Operational Increase in earn outs	208	2,932
Interest on contingent consideration	1,977	2,545
Payment	(20,402)	(9,591)
Foreign exchange differences	(1,024)	(1,563)
Balance at 30 June 2010	<u>17,822</u>	<u>30,922</u>

Independent audit report to members of Neptune Marine Services Limited

Report on the Financial Report

We have audited the accompanying financial report of Neptune Marine Services Limited, which comprises the statement of financial position as at 30 June 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Neptune Marine Services Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards including the Australian Accounting Interpretations and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

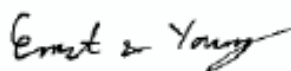
We have audited the Remuneration Report included in pages 6 to 15 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Neptune Marine Services Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our audit opinion expressed above, attention is drawn to the following matter. As a result of the matters as described in Note 1 there is significant uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.



Ernst & Young



C B Pavlovich
Partner
Perth
30 September 2010

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

Corporate Governance Report 2010

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
1.1	Establish and disclose the functions reserved to the Board and those delegated to senior executives	✓	<p>The Board has established a Corporate Governance Statement which summaries the role and duties of the Board. The Company is in the process of reviewing and updating the Corporate Governance Statement.</p> <p>The Company considers that the primary responsibility of the Board is to oversee the Company's business activities and management for the benefit of the shareholders by:</p> <ul style="list-style-type: none"> – setting objectives, goals and strategic direction with management with a view to maximising shareholder value; – overseeing the financial position and monitoring the business and affairs of the Company; – establishing corporate governance, ethical, environmental and health and safety standards; – ensuring significant business risks are identified and appropriately managed; and – ensuring the composition of the Board is appropriate, selecting directors for appointment to the Board and reviewing the performance of the Board and the contributions of individual directors. <p>The Board has delegated responsibilities and authorities to management to enable management to conduct the Company's day to day activities. Senior executives have a high level of authority commensurate with their position in the Company. Authority levels for all management is set out in writing and form a fundamental part of their employment conditions. The management structure of the Company and the suitability of authority levels are determined and reviewed by the Board.</p> <p>Matters which are not covered by the delegations require Board approval.</p> <p>The Corporate Governance Statement is available on the Company's website in the Investor Centre section.</p>
1.2	Disclose the process for evaluating the performance of senior executives	✓	<p>The Board regularly evaluates the performance of the Board, its committees, individual directors and key senior executives.</p> <p>The Board has established a Human Resources and Compensation Committee to assist it in exercising its reviews of its key senior executives.</p>

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			<p>The Human Resources and Compensation committee receives assessments of performance of executives reporting to the CEO through the CEO assisted by the Director of Human Resources with the Chief financial Officer also assessed by the Chairs of the Audit and Governance and Capital Management committees.</p> <p>Refer to the Director's Report for a summary of performance of the Chief Executive Officer and Chief Financial Officer.</p> <p>The Company has a formal induction process for its senior executives.</p>
1.3	Provide the following information in the annual report:		
1.3.1	An explanation of any departure from recommendations 1.1, 1.2 and 1.3		Not applicable.
1.3.2	Whether a performance evaluation for senior executives has taken place in the reporting period and whether it was in accordance with the process disclosed.	✓	Formal evaluations of the performance of the Chief Executive Officer and Chief Financial Officer have occurred and were in accordance with the process disclosed at 1.2 above. Refer to remuneration report.
2.1	A majority of the Board should be independent directors	✓	The majority of the Board is independent. The Board considers an independent director to be a non-executive director who meets the criteria for independence included in the ASX Best Practice Recommendations. The Board considers that Mr Ross Kennan, Mr Geoff Newman, Mr David Agostini and Mr Robert Scott meet these criteria.
2.2	The chairperson should be an independent director	✓	The Chairman, Mr Ross Kennan, is considered by the Board to be independent.
2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual	✓	The Chairman, Mr Ross Kennan, facilitates the relationship between the Board and, Mr Christian Lange, the Chief Executive Officer.
2.4	The Board should establish a nomination committee	✗	<p>The Company does not presently have a separate nomination or remuneration committee as required by Best Practice Recommendations 2.4. The size of the Company and Board does not warrant the establishment of a separate nomination committee. The duties of such committee have been considered and adopted by the Board.</p> <p>The Company does not have a documented procedure for the selection and appointment of directors. The Board informally reviews the skill set of and market expectations for its directors on a regular basis and considers these factors when appointing / re-electing directors. The Board invites persons with relevant industry experience and financial experience to assist it in its appointment of directors.</p>
2.5	The process for evaluating the performance of the Board, its committees	✓	The Company does not have a documented procedure for the evaluating the

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
	and individual directors should be disclosed.		<p>performance of the Board, its committees and directors.</p> <p>An evaluation of the performance of the Board and its directors is undertaken informally each year. The Chairman of the Board is the driver of this process. This year a questionnaire was completed by each director regarding individual performance as well as the performance of the Board as a whole. In previous years the Chairman has conducted interviews with each director.</p> <p>The evaluation of the performance of the Board's various committees is undertaken on an exception basis. This is also an informal process which is driven by the Chairman of the Board.</p>
2.6	Provide the following information in the annual report:		
2.6.1	The skills, expertise and experience relevant to the position of director held by each director in office at the date of the annual report	✓	Refer to Directors' Report.
2.6.2	The names of the directors considered by the Board to be independent directors and the Company's materially thresholds	✓	Refer to Directors' Report.
2.6.3	A statement as to whether there is a procedure agreed by the Board of directors to take independent professional advice at the expense of the Company	✓	The Board and its Committees may seek advice from independent experts whenever it is considered appropriate. The advice is at the Company's expense, subject to the prior approval of the Board.
2.6.4	The Board should state its reasons if it considers a director to be independent notwithstanding that the director does not meet the definition of independence contained in the ASX Guidelines	✓	Refer above at 2.1
2.6.5	The period of office held by each director in office at the date of the annual report	✓	Refer to Directors' Report.
2.6.6	The names of members of the nomination committee and their attendance at meetings of the committee	✗	Refer above at 2.4
2.6.7	Whether a performance evaluation for the Board, its committees and directors has taken place in the reporting period and whether it was in accordance with the process disclosed	✓	An evaluation of the Board, its committees and directors was undertaken and was in accordance with the process disclosed at 2.5
2.6.8	<p>An explanation of any departure from recommendations 2.1, 2.2, 2.3, 2.4 and 2.5</p> <p>The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section:</p>		Refer above at 2.4 and 2.6.6

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
	(a) a description of the procedure for the selection and appointment of new directors to the Board	✘	Refer above at 2.4
	(b) the charter of the nomination committee or a summary of the role, rights, responsibilities and membership requirements for the committee	✘	Refer above at 2.4
	(c) the nomination committee's policy for the appointment of directors	✘	Refer above at 2.4
3.1	Establish a code of conduct and disclose the code or a summary of the code as to: (a) the practices necessary to maintain confidence in the Company's integrity; (b) the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; (c) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices;	✓	The Board has adopted a Code of Conduct. The code outlines the Company's position on a range of ethical and legal issues including financial inducements, conflicts of interest and accountability and addresses: – the practices necessary to maintain confidence in the company's integrity; – the practices necessary to take into account their legal obligations and the expectations of their stakeholders; and – responsibility and accountability of individuals for reporting and investigating reports of unethical practices. The code applies to directors, employees, and anyone who works with the Company.
3.2	Establish a policy concerning trading in Company securities by directors, senior executives and employees and disclose the policy or a summary of the policy	✓	The Board has adopted a policy on Dealing Rules for Employees and Directors. Directors and employees must not deal in the Company's securities during designated prohibited periods and at anytime they have unpublished price sensitive material.
3.3	Provide the following information in the annual report:		
3.3.1	An explanation of any departure from recommendations 3.1, 3.2 and 3.3		Not applicable.
	The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section: (a) any applicable code of conduct or a summary of its main provisions (b) the trading policy or summary of its main provisions	✓	The Code of Conduct is available on the Company's website in the Investor Centre section. The policy on Dealing Rules for Employees and Directors is available on the Company's website in the Investor Centre section.
4.1	The Board should establish an audit committee	✓	The Board has established an Audit and Governance Committee to assist it in exercising its authority.
4.2	Structure the audit committee so that it consists of: a) only non-executive directors	✓	The committee complies with the structure as required by the Best Practice Recommendation 4.2.
	b) majority of independent directors	✓	

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	c) independent chairperson, who is not the chairperson of the Board d) at least three members	✓ ✓	
4.3	The audit committee should have a formal charter	✓	The Audit and Governance Committee has a formal charter that can be found at the Company's website.
4.4	Provide the following information in the annual report: (a) Details of the names and qualifications of those appointed to the audit committee and their attendance at meetings of the committee (b) The number of meetings of the audit committee The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section: (c) the audit committee charter (d) information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners	✓ ✓ ✓ ✓	Refer to Director's Report Refer to Director's Report The charter of the Audit and Governance Committee is available at the Company's website in the Investor Centre section. The committee manages the relationship between the Company and external auditor on behalf of the Board. It recommends to the Board potential auditors for appointment, re-appointment or replacement, the terms of engagement and remuneration of the external auditor.
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance. These policies or a summary of the policies should be disclosed.	✓	The Board recognises that shareholders and the investment market generally should be informed of all major business events that influence the Company in a timely and widely available manner. To safeguard the effective dissemination of information the Company has adopted an Information Disclosure Policy. The Policy outlines how the Company identifies and distributes information to shareholders and market participants and has been designed to ensure: – compliance with ASX Listing Rule disclosure; and – accountability at a senior executive level for that compliance.
5.2	Provide the following information in the annual report:		
5.2.1	An explanation of any departures from recommendations 5.1 and 5.2 and reasons for the departure		Not applicable.
5.2.2	The following material should be publicly available, ideally on the Company's website in a clearly marked corporate governance section: • a summary of the policies and procedures designed to guide compliance with Listing Rule disclosure requirements	✓	The Company's Information Disclosure Policy is available on the Company's website in the Investor Centre section.

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6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	✓	<p>The Company's communication strategy forms part of the Company's Information Disclosure Policy. The Board aims to ensure that the market and shareholders are informed of all major developments affecting the Company. The Company's website contains a section for shareholders and investors (Investor Centre). All announcements and corporate material of interest to shareholders and the market generally can be found on the Investor Centre. The Company's communication strategy has been designed to:</p> <ul style="list-style-type: none"> – promote effective communication with shareholders; and – encourage shareholder participation at AGMs.
6.2	Provide the following information in the annual report:		
6.2.1	An explanation of any departures from recommendation and reasons for the departure		Not applicable.
6.2.2	The Company should describe how it will communicate with its shareholders publically, ideally by posting this information on the company's website in a clearly marked corporate governance section.	✓	Refer above at 6.1
7.1	The Company should establish policies for risk oversight and management	✓	<p><u>Board</u></p> <p>Management is responsible for the management and oversight of material business risks. The Audit and Governance Committee and board has assisted the management in exercising its responsibilities for risk oversight management.</p> <p><u>Risk Management Committee</u></p> <p>The Board has recently through management established a separate Risk Management Committee comprising of senior executives to oversee the implementation of policies for the oversight and management of material business risks. That charter and statement of duties and responsibilities for the Risk Management Committee has been drafted and is subject to approval by the committee. The main responsibilities of the Risk Management Committee are:</p> <ol style="list-style-type: none"> 1. Recommend to the Board and then formally announce, implement and maintain a sound system of risk oversight, management and internal control which: <ul style="list-style-type: none"> (a) identifies, assesses, manages and monitors risk; and (b) allows investors and other stakeholders to be informed of material changes to the Company's risk profile. <p>The risk management duties of the Committee include:</p>

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			<ol style="list-style-type: none"> 1. Assessment of the Company's risk profile and key areas of risk in particular. 2. Recommending to the Board and adopting risk assessment and rating procedures. 3. Examining and determining the sufficiency of the Company's internal processes for reporting on and managing key risk areas. 4. Assessing and recommending to the Board acceptable levels of risk. 5. Development and implementation of a risk management framework and internal control system. 6. On an annual basis, agreeing with the Audit and Governance Committee which aspects of the internal audit are non-financial aspects to be monitored by the Committee. 7. Initiating and monitoring special investigations into areas of corporate risk and break-downs in internal control. 8. Reviewing the nature and level of insurance coverage. <p>The governance duties of the Committee include:</p> <ol style="list-style-type: none"> 1. Monitoring legal and regulatory compliance generally, including compliance with the: <ol style="list-style-type: none"> (a) Corporations Act 2001 (Cth); (b) Trade Practices Act 1974 (Cth); (c) listing rules of the ASX; and (d) other applicable Australian and overseas laws. 2. Reviewing and recommending to the Board changes to the Company's Code of Conduct, other policies ("Company Policies") and other material designed to guide the Company's directors, executives and other employees as to: <ol style="list-style-type: none"> (a) compliance with legal and other obligations to legitimate stakeholders such as shareholders and employees; (b) the ethical standards and practices necessary to maintain confidence in the Company's integrity; (c) the responsibility and accountability of individuals for reporting and investigating reports of unlawful and unethical practices; and (d) the behaviour expected of them and the Company's corporate culture generally. 3. Monitoring compliance with Company Policies and investigating allegations of breaches of those policies. 4. Reviewing and recommending to the Board policies to avoid conflicts of interest between the Company and its executives. <p>The Company also has a separate Health, Safety, Environment and Quality</p>

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			<p>("HSEQ") Committee which reports to the Board and which is responsible for the oversight and management of risks associated with HSEQ. This committee reports to the Board on a monthly basis.</p> <p>The annual report details material financial risks which arose during the reporting period (see notes to financial statements).</p>
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.		<p>As detailed at 7.1 the Board established a separate Risk Management Committee comprising of senior management to design and implement a risk management and internal control system to better manage the Company's material risks. The Risk Management Committee reports directly to the Board.</p> <p>The Risk Management Committee has a charter and duties and responsibilities statement outlining its key functions and processes.</p> <p>Management has reported to the Board as to the effectiveness of the Company's management of material business risks during the relevant reporting period.</p>
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	✓	The Board has received assurance from the Chief Executive Officer and Chief Financial Officer that the s295A declaration is founded on a sound system of risk management and internal control and the system is operating effectively in all material respects in relation to financial risks.
7.4	Provide the following information in the annual report:		
7.4.1	An explanation of any departures from recommendations 7.1, 7.2, 7.3 and 7.4 and reasons for the departure		
7.4.2	Whether the Board has received the report from management under recommendation 7.2	✓	The Board has received the report from management pursuant to recommendation 7.2.
7.4.3	Whether the Board has received assurance from the Chief Executive Officer and Chief Financial Officer under recommendation 7.3	✓	The Board has received the assurance in accordance with recommendation 7.3.
	<p>The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section:</p> <ul style="list-style-type: none"> a summary of the Company's policies on risk oversight and management of material business risks 	✓	<p>The current Charter for the Audit and Governance Committee Charter is accessible on the Company's website in the Investor Centre section.</p> <p>The risk charter and statement of responsibilities and duties of the Risk Management Committee is available on the Company's website in the Investor Centre section.</p>

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8.1	The Board should establish a remuneration committee	✓	The Board has established a Human Resources and Compensation Committee. The Committee's role is to assist the Board in establishing human resources and compensation policies and practices for directors, key executives and employees.
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	✓	Refer Director's Report
8.3	Provide the following information in the annual report:		
8.3.1	the names of the members of the remuneration committee and their attendance at meetings of the committee, or where the Company does not have a remuneration committee, how the functions of a remunerations committee are carried out	✓	Refer Director's Report
8.3.2	the existence and terms of any schemes for retirement benefits, other than superannuation, for non-executive directors	✓	Refer Director's Report
8.3.3	<p>An explanation of any departures from recommendation 8.1, 8.2 and 8.3 and reasons for the departure</p> <p>The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section:</p> <p>(a) the charter of the remuneration committee or a summary of the role, rights, responsibilities and membership requirements for that committee;</p> <p>(b) a summary of the company's policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes</p>		The Charter establishing the Human Resources and Compensation Committee is available on the Company's website in the Investor Centre section.