



Results for announcement to the market

| | | | | December 2009 \$'000 | December 2008 \$'000 |
|--|-------------|-------------|-----------|----------------------------|----------------------------|
| Financial Results | | | | | |
| Revenue from ordinary activities | <i>Down</i> | <i>11%</i> | <i>to</i> | 84,301 | 94,925 |
| Profit/(loss) from ordinary activities after tax | <i>Down</i> | <i>102%</i> | <i>to</i> | (296) | 12,901 |
| Net profit (loss) for the period attributable to members | <i>Down</i> | <i>102%</i> | <i>to</i> | (296) | 12,901 |

| Dividends | Amount per Ordinary Security | Franked amount per security |
|-----------------------|---------------------------------|--------------------------------|
| 2009 interim dividend | Nil | Nil |
| 2008 interim dividend | Nil | Nil |

| | |
|--|-----|
| Record date for determining entitlements to the 2009 interim dividends | N/A |
|--|-----|

| Net Tangible Asset Backing | December 2009 | December 2008 |
|--|----------------------|----------------------|
| Net tangible asset backing per ordinary security | \$0.12 | \$0.13 |

Other explanatory notes

On the 20th November, 2009, Neptune Marine Services Limited acquired 100% of the share capital of Aberdeen based Submersible Technology Services (Holdings) Limited (STS).

The information required by listing rule 4.2A is contained in both this Appendix 4D and the attached half-year report. This half-yearly reporting information should be read in conjunction with the most recent annual financial report of the company.

NEPTUNE MARINE SERVICES LIMITED AND CONTROLLED ENTITIES

ABN: 76 105 665 843

**Interim Financial Report for the Half Year Ended
31 December 2009**

NEPTUNE MARINE SERVICES LIMITED AND CONTROLLED ENTITIES

31 December 2009

ABN: 76 105 665 843

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NEPTUNE MARINE SERVICES LIMITED ABN: 76 105 665 843 AND CONTROLLED ENTITIES DIRECTORS' REPORT

Your directors present their report on the company ("Neptune") and its controlled entities for the half year ended 31 December 2009.

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

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

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

Company Secretary

The following person held the position of company secretary at the date of this report: Mr Gabriel Chiappini. Mr 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 Neptune Group during the period were:

- the provision and expansion of an integrated suite of subsea services to the oil and gas, marine and renewable energy sectors, both domestically and internationally;
- the identification and execution of projects utilising the group's suite of complementary services;
- migration of the Neptune Marine integrated service model into international target markets; and
- ongoing international commercialisation of the Nepsys Dry Underwater Welding Technology.

Operating Results

The consolidated loss of the group after providing for income tax amounted to \$0.296 million (2008: profit \$12.901 million).

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 half-year ended 31 December 2009.

Review of Operations

Offshore Services

Revenues for Offshore Services were \$39.047 million, down 45% on the same period last year.

The capabilities of the Offshore Services Division were expanded during the period with 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 addition of STS contributed further to Neptune's international expansion via its established operations in both Singapore and Bahrain, and bolstered Neptune's fleet of work and inspection class ROVs.

The continued impact of the global financial crisis adversely affected the division during the period, particularly within the North American and South East Asian markets. Major contributors to the downturn in activity comprised:

- Sudden and significant decline in drilling and exploration activity in the US due to very low natural gas pricing in the domestic market.
- Deferral of a large number of Inspection, Repair & Maintenance projects in SE Asia that negatively impacted on vessel and ROV utilisation rates.
- Cancellation/postponement of exploration budgets throughout most operating regions.
- Strength of the Australian dollar.
- Lower margins experienced due to deep discounting in some sectors.

On the upside, the division continued to win work in the Australian, European and Middle Eastern markets with a range of new and recurring clients including some of the oil and gas industry's major multinationals.

The intrinsic value of the division's broad and complementary service offering was also recognised during the period in the increased number of multi service contracts that Neptune was awarded, particularly from operators within the Australian region.

Engineering and Project Management Services

Revenues for Engineering Services were \$45.254 million, up 89% on the same period last year.

As was the case with Offshore Services, the Engineering Services division was also susceptible to the adverse market conditions outlined previously. While the amount of work secured by the division during the period was consistent, the increased incidence of margin erosion and discounting across the sector as well as the depreciation of the UK Pound Sterling had a significant impact on profitability.

The addition of Neptune Subsea Engineering also brought with it complementary engineering support to Neptune Deeptech that continued to operate at or near capacity throughout most of the year. In addition to the fabrication of specialist subsea and offshore oil and gas equipment for its blue chip client base, Neptune Deeptech also advanced its partnership in the development of marine renewable energy (wave) technologies for commercial application.

NEPTUNE MARINE SERVICES LIMITED ABN: 76 105 665 843 AND CONTROLLED ENTITIES DIRECTORS' REPORT

Increased political and social recognition for the commercial development of renewable energy technologies helped ensure Neptune Deeptech's (UK) continued involvement in the Pelamis Wave Power project in Scotland. Lending engineering support to the project was fellow Aberdonian, Neptune Subsea Engineering.

Similar collaboration between the engineering and fabrication businesses in Western Australia resulted in Neptune's involvement in both the Greater Enfield Area Project 09 and the Pluto LNG Project that also utilised Neptune's survey and ROV capabilities.

Neptune's second NEPSYS® project in the North Sea proved both challenging and rewarding as the technology was qualified to -70 metres of seawater, more than double its previous depth limitation.

Financial Position

The net assets, including goodwill of \$159.791 million, of the consolidated group have increased to \$211.411 million at 31 December 2009 from \$181.933 million 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 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 through the issuing of additional shares 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 half year ended 31 December 2009:

(i) The purchase of Submersible Technology Services (Holdings) Limited for \$31.661 million (Note 10(a)) included in the Neptune Group.

(ii) The issuing of shares in Neptune Marine Services Limited as per above for \$39.197 million

(iii) Loans & borrowings:

- As at 31 December 2009, Neptune had a term loan of \$21.500 million with the National Australia Bank at the interest of bank bill rate + 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 excluding the US entities. During the half year the company repaid \$1.400 million of the term loan.

- On 20th November 2009, Neptune borrowed GBP 15.000 million under a bridging facility from the National Australia Bank. The loan was used to fund 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 excluding the US entities. None of this loan was repaid during the half year.

- As at 31 December 2009, Neptune had a term loan of GBP 2.250 million from the National Australia Bank at the interest of overseas currency rate + 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 excluding the US entities. The loan is repayable by instalments of GBP 0.250 million per quarter until 31st December 2011. The remaining portion of the loan is payable at maturity on 7 January 2012. During the year the company repaid GBP 0.500 million against this loan.

- The US Subsidiary US Underwater Services has fully repaid their term loan with Fifth Third Bank on 16th September 2009 to the value of USD 2.285 million.

- As at 20 November 2009, the term loan and shareholder notes of Submersible Technology Services Limited was paid in full GBP 3.978 million.

- As at 31 December 2009, the debtor facility borrowed from the National Australia Bank was paid in full \$3.800 million.

After Balance Date Events

Neptune Marine Services has no events after Balance Date to report.

**NEPTUNE MARINE SERVICES LIMITED ABN: 76 105 665 843 AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

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 Neptune, 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 existing relationships that have already been established with these valuable clients.
 - (iii) Foster ongoing consolidation of the business via the development and improvement of management and business processes and actively pursue long term contracts that provide stable and predictable revenue streams (e.g. the three-year subsea inspection contract with QatarGas).
- 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 paved the way for the Neptune Group to become a significant provider of services within the oil and gas industry.

Environmental Issues

The company continues to develop and maintain its environmental management system in accordance with the requirements of the Department of Environmental Protection. There were no breaches recorded during the half year.

Auditor's Independence Declaration

The lead auditor's independence declaration for the half-year ended 31 December 2009 has been received and can be found on page 4 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.



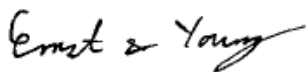
CEO & Managing Director

Dated this 23rd day of February 2010

Mr Christian Lange

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

In relation to our review of the financial report of Neptune Marine Services Limited for the half year ended 31 December 2009, 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.



Ernst & Young



C B Pavlovich
Partner
Perth
23 February 2010

**NEPTUNE MARINE SERVICES LIMITED ABN: 76 105 665 843 AND
CONTROLLED ENTITIES
INCOME STATEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2009**

| | Note | Consolidated Half Year | |
|--|-------------|---------------------------|----------------|
| | | 2009 \$000 | 2008 \$000 |
| Revenue | | 84,301 | 94,925 |
| Cost of Sales | | (58,699) | (51,123) |
| Gross Profit | | <u>25,602</u> | <u>43,802</u> |
| Other income | | 954 | 479 |
| Marketing expenses | | (305) | (330) |
| Occupancy expenses | | (2,076) | (1,983) |
| Corporate and administrative expenses | | (23,372) | (22,047) |
| Technical expenses | | (100) | (46) |
| Foreign exchange gain/(loss) | | (387) | 1,184 |
| Finance costs | | (1,193) | (835) |
| Finance costs - deferred consideration (inferred) | | (1,068) | (1,316) |
| Derivative financial instrument | | 277 | (787) |
| Share based payments | | <u>(454)</u> | <u>(622)</u> |
| Profit/(loss) from continuing operations before income tax | | (2,122) | 17,499 |
| Income tax (expense)/benefit | | <u>1,826</u> | <u>(4,598)</u> |
| Profit/(loss) from continuing operations attributable to members of the parent | | <u>(296)</u> | <u>12,901</u> |
| Earnings Per Share | | | |
| Basic earnings/(loss) per share (cents per share) | 2 | (0.07) | 4.35 |
| Diluted earnings/(loss) per share (cents per share) | 2 | (0.07) | 4.33 |

The accompanying notes form part of these financial statements.

NEPTUNE MARINE SERVICES LIMITED ABN: 76 105 665 843 AND CONTROLLED ENTITIES
STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

| | Consolidated | |
|--|-----------------|---------------|
| | Half Year | |
| | 2009 | 2008 |
| | \$000 | \$000 |
| Net profit/(loss) for the period | <u>(296)</u> | <u>12,901</u> |
| Other Comprehensive income | | |
| Foreign currency translation | (14,525) | 25,805 |
| Other comprehensive income for the period, net of tax | <u>(14,525)</u> | <u>25,805</u> |
| Total comprehensive income for the period | <u>(14,821)</u> | <u>38,706</u> |
| Total comprehensive income for the period attributable to members of the parent | <u>(14,821)</u> | <u>38,706</u> |

The accompanying notes form part of these financial statements.

**NEPTUNE MARINE SERVICES LIMITED ABN: 76 105 665 843 AND
CONTROLLED ENTITIES
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009**

| | Consolidated | |
|--------------------------------------|----------------|----------------|
| | 31 December | 30 June |
| Note | 2009 | 2009 |
| | \$000 | \$000 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 37,199 | 24,277 |
| Trade and other receivables | 32,286 | 38,355 |
| Inventories | 6,412 | 4,602 |
| Other current assets | 3,124 | 2,297 |
| TOTAL CURRENT ASSETS | 79,021 | 69,531 |
| NON-CURRENT ASSETS | | |
| Trade and other receivables | 688 | 998 |
| Property, plant and equipment | 77,388 | 69,277 |
| Deferred tax assets | 5,344 | 4,299 |
| Intangible assets and goodwill | 161,722 | 145,810 |
| Other non-current assets | 211 | 339 |
| TOTAL NON-CURRENT ASSETS | 245,353 | 220,723 |
| TOTAL ASSETS | 324,374 | 290,254 |
| CURRENT LIABILITIES | | |
| Trade and other payables | 42,090 | 46,665 |
| Financial liabilities | 32,139 | 12,835 |
| Current tax liabilities | 4,653 | 6,781 |
| Derivative financial instruments | 111 | 205 |
| Provisions | 1,348 | 1,888 |
| TOTAL CURRENT LIABILITIES | 80,341 | 68,374 |
| NON-CURRENT LIABILITIES | | |
| Trade and other payables | 6,188 | 12,717 |
| Financial liabilities | 21,921 | 24,335 |
| Deferred tax liabilities | 4,420 | 2,620 |
| Derivative financial instruments | 93 | 275 |
| TOTAL NON-CURRENT LIABILITIES | 32,622 | 39,947 |
| TOTAL LIABILITIES | 112,963 | 108,321 |
| NET ASSETS | 211,411 | 181,933 |
| EQUITY | | |
| Contributed equity | 201,578 | 157,733 |
| Reserves | (7,090) | 6,981 |
| Retained earnings | 16,923 | 17,219 |
| Parent interest | 211,411 | 181,933 |
| TOTAL EQUITY | 211,411 | 181,933 |

The accompanying notes form part of these financial statements.

NEPTUNE MARINE SERVICES LIMITED ABN: 76 105 665 843 AND CONTROLLED ENTITIES
STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

| | Note | Ordinary Shares | Retained Earnings/ (Losses) | Foreign Currency Translation Reserve | Option Reserve | Total |
|---|------|--------------------|-----------------------------------|---|-------------------|----------|
| | | \$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 | | - | 12,901 | - | - | 12,901 |
| Other comprehensive income | | - | - | 25,805 | - | 25,805 |
| Total comprehensive income for the half year | | - | 12,901 | 25,805 | - | 38,706 |
| Transactions with owners in their capacity as owners | | | | | | |
| Shares issued during the year | | 2,484 | - | - | - | 2,484 |
| Transaction costs | | - | - | - | - | - |
| Exercise of options | | 1 | - | - | - | 1 |
| Cost of share based payments | | - | - | - | 622 | 622 |
| Sub-total | | 141,890 | 9,149 | 19,609 | 4,746 | 175,394 |
| Balance at 31 December 2008 | | 141,890 | 9,149 | 19,609 | 4,746 | 175,394 |
| Balance at 1 July 2009 | | | | | | |
| | | 157,733 | 17,219 | 1,714 | 5,267 | 181,933 |
| (Loss) for the period | | - | (296) | - | - | (296) |
| Other comprehensive income | | - | - | (14,525) | - | (14,525) |
| Total comprehensive income for the half year | | - | (296) | (14,525) | - | (14,821) |
| Transactions with owners in their capacity as owners | | | | | | |
| Shares issued during the year | | 44,862 | - | - | - | 44,862 |
| Transaction costs | | (1,041) | - | - | - | (1,041) |
| Exercise of options | | 24 | - | - | - | 24 |
| Cost of share based payments | | - | - | - | 454 | 454 |
| Sub-total | | 201,578 | 16,923 | (12,811) | 5,721 | 211,411 |
| Balance at 31 December 2009 | | 201,578 | 16,923 | (12,811) | 5,721 | 211,411 |

The accompanying notes form part of these financial statements.

NEPTUNE MARINE SERVICES LIMITED ABN: 76 105 665 843 AND CONTROLLED ENTITIES
STATEMENT OF CASH FLOW FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

| | Note | Consolidated Half Year | |
|---|--------|---------------------------|-----------------|
| | | 2009 \$000 | 2008 \$000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 98,886 | 78,537 |
| Interest received | | 545 | 141 |
| Payments to suppliers and employees | | (95,600) | (70,298) |
| Interest paid | | (1,190) | (610) |
| Income tax paid | | (3,249) | (1,336) |
| Net cash flow (used in)/from operating activities | | <u>(608)</u> | <u>6,434</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (7,759) | (39,430) |
| Expenditure on development costs | | (453) | - |
| Payment for subsidiaries, net of cash acquired | 10 (a) | (20,944) | (8,776) |
| Deferred consideration on previous business combination | 10 (b) | (5,110) | - |
| Receipt of bank guarantee | | 298 | 814 |
| Net cash flow (used in) investing activities | | <u>(33,968)</u> | <u>(47,392)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net proceeds from issue of shares | | 39,797 | 10 |
| Proceeds from exercise of options | | 24 | - |
| Share/option issue costs | | (23) | - |
| Proceeds from borrowings | | 27,024 | 32,245 |
| Borrowing costs | | (305) | (462) |
| Repayment of borrowings | | (16,816) | (2,860) |
| Net cash flow from financing activities | | <u>49,701</u> | <u>28,933</u> |
| Net increase/(decrease) in cash and cash equivalents held | | 15,125 | (12,025) |
| Cash and cash equivalents at beginning of financial period | | 24,277 | 18,155 |
| Effect of exchange rates on cash holdings in foreign currencies | | (2,203) | 421 |
| Cash and cash equivalents at end of period | 3 | <u>37,199</u> | <u>6,551</u> |

The accompanying notes form part of these financial statements.

**NEPTUNE MARINE SERVICES LIMITED ABN: 76 105 665 843 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2009**

Note 1 Statement of Significant Accounting Policies

This general purpose condensed financial report for the half year ended 31 December 2009 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half year financial report be read in conjunction with the annual report for the year ended 30 June 2009 and considered together with any public announcements made by Neptune Marine Services Limited during the half year ended 31 December 2009 in accordance with the continuous disclosure obligations of the ASX listing rules.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

Application of new and revised accounting standards

From 1 July 2009 the Group has adopted the following applicable Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2009.

AASB 8 Operating Segments

This standard requires disclosure of information about the Consolidated Entity's operating segments and replace the requirement to determine primary and secondary reporting segments of the Consolidated Entity.

AASB 101 Presentation of Financial Statements (revised 2007)

The revised standard introduces a number of terminology changes, including revised titles for the financial statements, and has resulted in a number of changes in presentation and disclosure.

AASB 3 Business Combinations

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 will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.

AASB 127 Consolidated and Separate Financial Statements

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.

The Group has not elected to early adopt any new standards or amendments.

Tax consolidation legislation

Neptune Marine Services Ltd and its wholly owned Australian controlled entities have decided to implement the tax consolidation legislation as of 1 July 2009. The Australian Taxation Office has not yet been notified of this decision.

Whilst the implementation process of the Tax Consolidations has begun, the final allocation of tax cost bases has not yet been completed, the financial impact is not expected to be significant.

Note 2 Earnings per Share

| | 31 December 2009 \$000 | 31 December 2008 \$000 |
|--|------------------------------|------------------------------|
| (a) Profit/(loss) used in the calculation of EPS | (296) | 12,901 |
| (b) Weighted average number of ordinary shares outstanding during the period used in calculating basic EPS | 409,669,476 | 296,830,330 |
| (c) Weighted average number of ordinary shares outstanding during the period used in calculating diluted EPS | 409,669,476 | 298,024,895 |

The potential ordinary shares, being the outstanding options of 32,665,921 are not considered dilutive and accordingly the dilutive earnings per share is the same as the basic earnings per share.

NEPTUNE MARINE SERVICES LIMITED ABN: 76 105 665 843 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

Note 3 Cash and Cash Equivalents

| | 31 December 2009 \$000 | 30 June 2009 \$000 |
|--------------------------|------------------------------|--------------------------|
| Cash at bank and in hand | 37,199 | 14,751 |
| Deposits | - | 9,526 |
| | 37,199 | 24,277 |

Reconciliation of cash and cash equivalents

Cash at the end of the financial half year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:
Cash and cash equivalents

| | | |
|--|--------|--------|
| | 37,199 | 24,277 |
| | 37,199 | 24,277 |

Note 4 Controlled Entities

Details of the acquisitions of controlled entities during the half year ended 31 December 2009 can be found at note 10(a) 'Business Combinations'.

There were no other changes to the composition of the entity during the period.

Note 5 Intangible Assets

| | 31 December 2009 \$000 | 30 June 2009 \$000 |
|---|------------------------------|--------------------------|
| Goodwill | | |
| Cost | 164,301 | 140,770 |
| Accumulated operational increase in earn outs | 10,777 | 10,777 |
| Accumulated reduction in deferred payments | (1,670) | (1,670) |
| Accumulated foreign exchange differences | (8,722) | (715) |
| Accumulated impairment losses | (4,895) | (4,895) |
| Net carrying value | 159,791 | 144,267 |
| | | |
| Development costs | | |
| Cost | 2,086 | 1,633 |
| Accumulated amortisation and impairment | (155) | (90) |
| Net carrying value | 1,931 | 1,543 |
| | | |
| Total intangibles | 161,722 | 145,810 |

Intangible assets, other than goodwill have finite useful lives. The current amortisation charges in respect of intangible assets are included under Technical expenses per the income statement. Goodwill has an infinite life and is tested annually for impairment.

Movements

| | 31 December 2009 \$000 | 30 June 2009 \$000 |
|-----------------------------------|------------------------------|--------------------------|
| Goodwill | | |
| Balance at 1 July 2009 | 144,267 | 113,336 |
| Acquisitions | 23,525 | 22,867 |
| Operational Increase in earn outs | - | 3,679 |
| Reduction in deferred payments | - | (747) |
| Foreign exchange differences | (8,001) | 5,132 |
| Impairment | - | - |
| Balance at 31 December 2009 | 159,791 | 144,267 |
| | | |
| Development costs | | |
| Balance at 1 July 2009 | 1,543 | 1,440 |
| Acquisitions | 453 | 193 |
| Amortisation | (65) | (90) |
| Balance at 31 December 2009 | 1,931 | 1,543 |
| | | |
| Total intangible assets | 161,722 | 145,810 |

**NEPTUNE MARINE SERVICES LIMITED ABN: 76 105 665 843 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2009**

Note 6 Contributed Equity

| | 31 December 2009 \$000 | 30 June 2009 \$000 |
|---|------------------------------|--------------------------|
| 422,924,556 (June 2009: 334,643,474) fully paid ordinary shares | 201,578 | 157,733 |
| | 201,578 | 157,733 |

(a) Ordinary Shares

| | No. | 31 December 2009 \$ |
|---|-------------|---------------------------|
| At the beginning of reporting period | 334,643,474 | 157,733 |
| Shares issued during the current period | | |
| — 8 July 2009 - Exercise of options | 5,200 | 1 |
| — 14 July 2009 - Placement | 56,000,000 | 28,000 |
| — 27 July 2009 - Share Purchase Plan | 26,310,450 | 13,155 |
| — 31 July 2009 - Exercise of options | 1,500 | 0 |
| — 13 August 2009 - Exercise of options | 10,000 | 2 |
| — 8 September 2009 - Exercise of options | 56,250 | 1 |
| — 26 September 2009 - Exercise of options (employee) | 26,668 | 9 |
| — 16 October 2009 - Vendor shares - Link Weld | 177,515 | 150 |
| — 16 October 2009 - Exercise of options (employee) | 13,333 | 5 |
| — 16 October 2009 - Exercise of options | 20,300 | 4 |
| — 30 November 2009 - Exercise of options (employee) | 40,000 | 0 |
| — 30 November 2009 - Exercise of options | 10,000 | 2 |
| — 3 December 2009 - Vendor shares - Tri Surv | 4,079,055 | 2,354 |
| — 11 December 2009 - Vendor shares - STS | 1,530,811 | 1,205 |
| Less transaction costs for capital raising activities | | |
| — Capital raising costs to December 2009 (including deferred tax) | | (1,041) |
| At reporting date | 422,924,556 | 201,578 |

Note 7 Contingent Liabilities

Contingent Liabilities

The consolidated group of Neptune Marine Services at 31 December 2009 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 the claims are currently being defended.

Note 8 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, 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; the patented NEPSYS® dry underwater welding technology; difficult and confined area access via rope access and tension netting; DP construction support vessels; remotely operated vehicles (ROVs); subsea pipeline/cable stabilisation and protection; hydrographic surveying, positioning and geophysical support; and project management.

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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; 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 and in the prior period.

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 income - Interest
- Corporate & 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 half years ended 31 December 2009 and 31 December 2008.

| Continuing Operations | | | | | | |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | Engineering | | Offshore Services | | Total | |
| | 31 December 2009 \$000 | 31 December 2008 \$000 | 31 December 2009 \$000 | 31 December 2008 \$000 | 31 December 2009 \$000 | 31 December 2008 \$000 |
| Half year ended 31 December 2009 | | | | | | |
| Revenue | | | | | | |
| Sales to external customers | 45,254 | 23,951 | 39,047 | 70,974 | 84,301 | 94,925 |
| Internal sales | 2,086 | 2,991 | 17,587 | 457 | 19,673 | 3,448 |
| Total sales revenue | <u>47,340</u> | <u>26,942</u> | <u>56,634</u> | <u>71,431</u> | <u>103,974</u> | <u>98,373</u> |
| Internal elimination | | | | | (19,673) | (3,448) |
| Total revenue per the statement of comprehensive income | | | | | <u>84,301</u> | <u>94,925</u> |
| Result | | | | | | |
| Segment result | <u>2,021</u> | <u>3,308</u> | <u>6,273</u> | <u>22,537</u> | 8,294 | 25,845 |
| Reconciliation of segment net profit/(loss) before tax to net profit/(loss) before tax | | | | | | |
| Fair value gain/(loss) on interest rate swap | | | | | 277 | (787) |
| Finance costs | | | | | (1,193) | (835) |
| Other income - interest | | | | | 452 | 115 |
| Corporate & administration expense | | | | | (7,943) | (6,039) |
| Technical expenses | | | | | (100) | (46) |
| Share-based payments | | | | | (454) | (622) |
| Finance costs - deferred payments (inferred) | | | | | (1,068) | (1,316) |
| Foreign exchange gain/(loss) | | | | | (387) | 1,184 |
| Net profit/(loss) before tax per the statement of comprehensive income | | | | | <u>(2,122)</u> | <u>17,499</u> |
| | 31 December 2009 \$000 | 30 June 2009 \$000 | 31 December 2009 \$000 | 30 June 2009 \$000 | 31 December 2009 \$000 | 30 June 2009 \$000 |
| Segment assets | | | | | | |
| Segment operating assets | <u>47,499</u> | <u>29,426</u> | <u>109,809</u> | <u>110,719</u> | 157,308 | 140,145 |
| Inter-segment eliminations | | | | | | |
| Deferred tax assets | | | | | 5,344 | 4,299 |
| Intangibles | | | | | 1,931 | 1,543 |
| Goodwill | | | | | 159,791 | 144,267 |
| Total assets from continuing operations per the statement of financial position | | | | | <u>324,374</u> | <u>290,254</u> |

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Note 9 Events After the Balance Sheet Date

There are no events after the balance sheet date to report.

Note 10 Business Combinations

(a) Submersible Technology Services (Holdings) Limited

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 each calculated on 10 day VWAP prior to 20 November 2009. 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 us 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. Provisional business combination accounting is as follows:

| | Consolidated | |
|---|---|-------------------------------------|
| | Fair Value at acquisition date \$000 | Carrying value \$000 |
| Cash and cash equivalents | 3,538 | 3,538 |
| Trade receivables | 8,627 | 8,627 |
| Plant and equipment | 9,462 | 9,462 |
| | <u>21,627</u> | <u>21,627</u> |
| Trade payables | (1,733) | (1,733) |
| Tax liabilities | (4,526) | (4,526) |
| Intercompany loans | (7,232) | (7,232) |
| | <u>(13,491)</u> | <u>(13,491)</u> |
| Provisional fair value of identifiable net assets | 8,136 | |
| Goodwill arising on acquisition | 23,525 | |
| | <u>31,661</u> | |
| Cost of combination: | | |
| Shares issued, at fair value | 1,205 | |
| Cash paid | 24,482 | |
| Deferred Settlement | 5,974 | |
| Total cost of the combination | <u>31,661</u> | |
| The cash outflow on acquisition is as follows: | | |
| Cash paid | (24,482) | |
| Net cash acquired with the subsidiary | 3,538 | |
| Net consolidated cash outflow | <u>(20,944)</u> | |

The reason that the amounts are provisional at 31 December 2009 is due to the timing of the acquisition and the proximity to the reporting date.

From the date of acquisition, Submersible Technology Services (Holdings) Limited has contributed revenue and profit (excluding corporate overheads) of \$0.728 million and \$0.508 million 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 \$8.218 million and \$1.784 million respectively. Direct costs relating to acquisition have been expensed in line with the change in accounting standards (\$0.538 million).

Key factors contributing to the goodwill balance of \$23.525 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 receivables with a gross contractual and fair value of \$8.627 million resulting from trade sales with customers. Management expects these amounts to be collected in full and converted to cash consistent with customer terms, which call for payment within 60-90 days of the initial sale.

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10 (b) Deferred consideration - prior period acquisitions

During the period 1 July 2009 to 31 December 2009, the following are the movements in deferred consideration:

| | 31 December 2009 \$000 |
|--|------------------------------|
| Deferred consideration | |
| Balance at 1 July 2009 | 30,924 |
| Acquisitions | 5,974 |
| Finance costs -deferred consideration (inferred) | 1,068 |
| Settlement in cash | (5,110) |
| Settlement in equity | (3,708) |
| Foreign exchange differences | 13 |
| Balance at 31 December 2009 | <u>29,161</u> |

**NEPTUNE MARINE SERVICES LIMITED ABN: 76 105 665 843
AND CONTROLLED ENTITIES
DIRECTORS' DECLARATION**

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 5 to 15, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 31 December 2009 and of the performance for the 6 months ended on that date of the consolidated group;

2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Chairman

Mr Ross Kennan

Dated this 23rd day of February 2010

To the members of Neptune Marine Services Limited

Report on the condensed half-year financial report

We have reviewed the accompanying half-year financial report of Neptune Marine Services Limited (the company), which comprises the statement of financial position as at 31 December 2009, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes, other information as set out in Appendix 4D to the Australian Stock Exchange (ASX) Listing Rules and the directors' declaration of the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the half-year end or from time to time during the half year.

Directors' Responsibility for the half year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards including the Australian Accounting Interpretations, the *Corporations Act 2001* and the ASX Listing Rules as they relate to Appendix 4D. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and the ASX Listing Rules as they relate to Appendix 4D. As the auditor of Neptune Marine Services Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

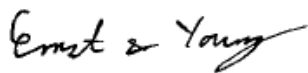
Independence

In conducting our review, we have complied with 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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Neptune Marine Services Limited is not in accordance with:

- a. the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half year ended on that date; and
 - ii complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- b. the ASX Listing Rules as they relate to Appendix 4D.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script, likely belonging to C B Pavlovich.

C B Pavlovich
Partner
Perth
23 February 2010