
Neptune Marine Services Limited
ACN 105 665 843

Corporate Governance

Contents

1. INTRODUCTION	3
2. ASX BEST PRACTICE RECOMMENDATIONS	3
3. BOARD OF DIRECTORS	3
4. ASX GUIDELINES ON COPORATE GOVERNANCE	9

1. INTRODUCTION

This statement summarises the corporate governance practices adopted by the Board. Neptune's objective is to achieve best practice in corporate governance, and the Company's officers and employees are committed to achieving this objective.

In addition to the information contained in this statement, the Company's website at www.neptunems.com contains details of its corporate governance procedures and practices.

2. ASX BEST PRACTICE RECOMMENDATIONS

The ASX Listing Rules require listed companies to include in their annual report a statement disclosing the extent to which they have complied with the ASX Best Practice Recommendations in the reporting period. The recommendations are not prescriptive and if a company considers that a recommendation is inappropriate having regard to its particular circumstances, the company has the flexibility not to adopt it. Where the Company considered it was not appropriate to presently comply with a particular recommendation the reasons are set out in the latter part of this statement.

3. BOARD OF DIRECTORS

3.1 Role of the Board

The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of shareholders by:

- (a) setting objectives, goals and strategic direction with management with a view to maximising shareholder value;
- (b) overseeing the financial position and monitoring the business and affairs of the Company;
- (c) establishing corporate governance, ethical, environmental and health and safety standards;
- (d) ensuring significant business risk are identified and appropriately managed; and
- (e) 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.

The Board has delegated responsibilities and authorities to management to enable management to conduct the Company's day to day activities. Matters which are not covered by these delegations, such as approvals which exceed certain limits, require Board approval.

Board approval is required for:

- ◆ Investment
- ◆ Divestment
- ◆ Acquisition
- ◆ Capital restructuring of the company
- ◆ Capital raising

- ◆ Debt Financing of a material nature to the balance sheet or Enterprise Market Value; and
- ◆ Capital or capital expenditure of a single item that has not been approved by the board in the Company's Annual Budget and is 10% above the total approved budgeted expenditure.
- ◆ Contracts where the potential liability or liquidated damages exceeds AUD\$10,000,000.

3.2 Board Composition

The Board comprises five Directors including one executive Director. A majority of the Board of Directors is comprised of independent Directors under the ASX definition of independence

The Directors are subject to election by shareholders. All Directors, apart from the Managing Director, are subject to re-election by rotation within every three years. The Company's Constitution provides that one-third of the Directors retire by rotation at each AGM. Those Directors who are retiring may submit themselves for re-election by shareholders, including any Director appointed to fill a casual vacancy since the date of the previous AGM. The composition of the Board is reviewed at least annually to ensure the balance of skills and experience is appropriate. The Directors have a broad range of qualifications, experience and expertise. The skills, experience and expertise of Directors are set out in the Directors' Report.

The names of the Directors in office at the date of this Report, the year they were first appointed, their status as Non-Executive, Executive or Independent Directors, whether they are retiring by rotation and seeking re-election by shareholders at the 2009 AGM, are set out in the Directors' Report.

3.3 Independence of Non-Executive Directors

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.

3.4 Independent Professional Advice

The Board has adopted a formal policy on access to independent professional advice which provides that Directors are entitled to seek independent professional advice for the purposes of the proper performance of their duties. The advice is at the Company's expense, subject to the prior approval of the Board. Advice so obtained is to be made available to all Directors.

3.5 Meetings

The Board held 12 meetings during the reporting year. Senior management, attended and made presentations at the Board meetings as considered appropriate and, were available for questioning by Directors.

3.6 Managing Business Risk and Internal Control Framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility the Board has instigated an internal control framework that includes the following:

- ◆ Financial reporting – there is a comprehensive budgeting and forecasting system with updates provided to the Board at each Board meeting. Periodic reports are provided to the Board. Quarterly, half yearly and annual reports are prepared in accordance with the Corporations Act 2001 (Cth) and ASX Listing Rules.
- ◆ The Chief Executive Officer and the Chief Financial Officer are required to confirm in writing that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results are in accordance with relevant accounting standards.
- ◆ A Risk Management Committee has been set up comprising of senior executives (including the Chief Executive Officer), with its main responsibilities including:

Recommend to the Board and then formally announce, implement and maintain a sound system of risk oversight, management and internal control which:

- (i) Identifies, assesses, manages and monitors risk; and
- (ii) Allows investors and other stakeholders to be informed of material changes to the Company's risk profile

Recommend to the Board and then formally announce clear standards of ethical behaviour required of directors, employees and contractors and encourage observance of those standards.

In discharging its responsibilities, the Committee is to develop and seek Board approval for a range of specific duties that it is to carry out. Such duties will vary depending on the Company's circumstances, the Committee's responsibilities and, in particular, the roles of the Board and other committees, such as audit and governance, and health, safety, environment and quality (HSEQ).

3.7 Board Committees

To assist the Board effectively discharge its responsibilities the Board has formally constituted the following committees.

3.7.1 Audit and Governance Committee

The primary objective of the Audit and Governance Committee is to assist the Board in the effective discharge of its responsibilities for financial reporting, internal controls, risk management and internal and external audit.

The duties of the Committee include:

Risk Management

- ◆ assess the internal processes for determining, managing and reporting on key risk areas;
- ◆ ensure that the Company has an effective risk management system and review its operational effectiveness on a regular basis, particularly areas of significant risk exposure; and
- ◆ assess whether management has appropriate controls in place for transactions that may carry more than the usual degree of risk accepted by the company.

Audit

- ◆ supervising the engagement of the external auditor and monitoring their performance;
- ◆ reviewing the effectiveness of management information and other systems of internal control;
- ◆ Subject to the Risk Management Committee Charter, reviewing all areas of significant financial risk and arrangements in place to contain those to acceptable levels;
- ◆ reviewing significant transactions that are not a normal part of the Company's business;
- ◆ reviewing the year-end and interim financial information and ASX reporting statements;
- ◆ monitoring the internal controls and accounting compliance with the Corporations Act, ASX Listing Rules, external audit reports and ensure prompt remedial action where required; and
- ◆ reviewing the Company's financial statements and accounting procedures.

The Company's auditor is invited to attend the annual general meeting and the Company supports the principle of the auditor being available to answer questions on the conduct of the audit and the content of the audit report.

3.7.2 Occupational Health, Safety & Environment Committee

The broad function of the Occupational Health, Safety and Environment Committee is to oversee management and implementation of occupational health, safety and environmental policy within the Company and its subsidiaries (the Group). The Committee will assist the Board in discharging its responsibilities. The duties of the Committee include:

- ◆ ensuring the Company adopts, maintains and applies appropriate occupational health, safety and environment policies and procedures for the Group;
- ◆ ensuring that the Group maintain effective occupational health, safety and environment related internal control and risk management systems;
- ◆ provide a formal forum for communication between the Board and senior management; and

- ◆ review adequacy of the Company's compliance programs to ensure compliance with all laws, regulations and standards and any other regulatory requirements in respect of occupation health, safety and environment matters.

3.7.3 Human Resources and Compensation Committee

The role of the Human Resources and Compensation Committee is to assist the Board in establishing human resources and compensation policies and practices which:

- ◆ enable the Company to attract talented Directors and to attract, retain and motivate employees who achieve operational excellence and create value for shareholders;
- ◆ reward employees fairly and responsibly, regard being had to the results of the Group, individual performance and general remuneration conditions; and
- ◆ reflect best practice in people development while meeting the Company's business needs.

◆ 3.7.4 Capital Management Committee

During the financial year the Board established the Capital Management Committee which reviews and guides the board in respect of matters relating to maintenance of an efficient Balance Sheet, Equity Structure and Gearing levels. The main policies of the Capital Management Committee are :

- oversee the Group's capital budget and forecasting processes and where necessary, assist with securing appropriate resources and expertise to carry out the budgeting, forecasting and financial modelling tasks;
- recommend to the Board investment hurdle rates, and review and make recommendations on individual capital expenditure proposals and fixed operating expenditure commitments;
- oversee the Group's funding plan to ensure capital sourcing is consistent with the Board's goals in relation to financial resources;
- assess and advise on the suitability of alternative sources of capital;
- formulate a company dividend policy for approval by the Board and make recommendations to the Board from time to time for the payment of dividends;
- maintain positive investor relations to ensure equity is secured on terms consistent with achievement of shareholder value objectives.

3.8 Evaluation of Board Performance

During the reporting period an evaluation of the Board and key executive was carried out on an informal basis. As the activities of the Company develop, it will establish more formal evaluation procedures, including quantitative measures of performance.

3.9 Remuneration Policies

Executive Directors and key executives are remunerated by way of a salary or consultancy fees, commensurate with their required level of services. Non-executive Directors receive a fixed monthly fee for their services.

Non-Executive Directors' fees are capped in aggregate at \$400,000 per annum.

3.10 Attendance at Board and Committee Meetings

The attendance of Directors at Board meetings during the financial year ended 30 June 2009 is detailed in the Directors' Report.

3.11 Ethical Standards

The Board is committed to promoting the practice of high ethical standards. All Directors and employees are expected to act with the utmost integrity and objectivity striving at all times to enhance the reputation and performance of the Company, in the following areas:

- ◆ professional conduct;
- ◆ dealings with suppliers, advisers and regulators;
- ◆ dealings with the community; and
- ◆ dealings with other employees.

These are outlined further in the Company's Code of Conduct.

The Company's Code of Conduct is available on the Company's website in the Corporate Governance section.

3.12 Trading in the Company's Securities by Directors and Employees

The Board has adopted a policy in relation to dealings in the securities of the Company which applies to all Directors and Employees. Under the policy, Directors and Employees are prohibited from short term trading in the Company's securities whilst in possession of price sensitive information. The Chairman (or in the case of the Chairman, the Chief Executive Officer) must be notified of any proposed transaction and must give clearance for the transaction to proceed. These are outlined further in the Dealing Rules of the Company.

The Company's Dealing Rules for Employees and Directors is available on the Company's website in the Corporate Governance section.

3.13 Privacy

The Company has resolved to comply with the National Privacy Principles contained in the Privacy Act 1988 (Cth), to the extent required for a company the size and nature of the company.

3.14 Information Disclosure

The Board is committed to the promotion of investor confidence by ensuring that trading in the Company's securities takes place in an efficient, competitive and informed market. In accordance with the continuous disclosure requirements under the ASX Listing Rules, the Company has procedures in place to ensure that all price sensitive information is identified, reviewed by management and disclosed to the ASX in a timely manner and that information provided to the ASX is immediately available to shareholders and the market on the Company's website.

Analysts and press briefings are conducted following the release of half-year results, full-year results and major announcements and, from time to time, briefings with major shareholders are conducted in order to promote a better understanding of the Company. In conducting briefings, the Company takes care to ensure that any price sensitive information included in the content of briefings has already been made available to all shareholders and the market.

The Company's Information Disclosure Policy is available on the Company's website in the Corporate Governance section.

3.15 Shareholders

The Board aims to ensure that shareholders are kept informed of all major developments affecting the Company. Information is communicated to shareholders through:

- ◆ continuous disclosure in the form of public announcements on ASX;
- ◆ annual and quarterly reports to shareholders;
- ◆ investor briefings;
- ◆ the Chairman's address delivered at the AGM; and
- ◆ notices of all meetings of shareholders and explanatory notes of proposed resolutions.

In addition, information for shareholders is available on Neptune's website: www.neptunems.com, including recent announcements, presentations, past and current reports to shareholders, biographical information on Directors and information relating to operations.

Shareholders are encouraged at AGM's to ask questions of Directors and senior management and also the Company's external auditors, who are required to be in attendance.

3.16 Remuneration

Remuneration of Directors, Non Executive Directors and Senior Management is fully disclosed in the Remuneration Report.

3.17 Options

The Board may, through ASIC and ASX procedures, request shareholders to approve the issuing of options to Directors and Non Executive Directors. In such instances these are based on performance and/or lieu of salary.

Shareholders have approved an Employee Incentive Option Plan which is available on the Company's website.

3.18 Retirement Benefits for Non-Executive Directors

The Company does not have any scheme relating to retirement benefits for Non-Executive Directors.

4. ASX GUIDELINES ON CORPORATE GOVERNANCE

Pursuant to ASX Listing Rules the Company must provide a statement disclosing the extent to which the ASX Best Practice Recommendations have not been followed in

the reporting period. The Company sets out below an explanation of the areas where the Company does not presently comply with ASX Best Practice Recommendations.

4.1 Nomination Committee

The Company does not presently have a separate nomination committee. The Company is in its early stages of development and as such, the entire Board conducts the function of such committee. The duties of such committee have been considered and adopted by the Board. The Board invites persons with relevant industry and financial experience when required to carry out the functions of such committee.