



## 2012 AGM Address

### PETER WALLACE, CHAIRMAN – ADDRESS

Ladies and Gentlemen

On behalf of the Board, I welcome you to the 2012 Annual General Meeting of Neptune Marine Services. My name is Peter Wallace and it is my pleasure to be standing here for the first time as Chairman of Neptune.

I would like to provide an overview of the agenda for today's meeting. Firstly, I will give an address that will provide a brief summary of Neptune's activities over the past twelve months. I will also provide an initial overview of the takeover bid that Neptune received from MTQ Corporation's wholly-owned subsidiary, Blossomvale Investments, on October 30.

I will then hand over to Neptune's Chief Executive Officer, Robin King, who will give a presentation that will provide a more comprehensive review of the Company's operations. Following his presentation, shareholders will have an opportunity to ask Robin or myself questions about the Company's operations before we conduct the formal business of the meeting.

After the formal business is completed, I will provide an overview of the Board's response to the takeover offer and will answer any questions that you may have around this.

### *The past year*

Throughout the 2012 financial year we had a clear focus to complete the restructure initiatives that Neptune embarked on in December 2010 – and over the year we completed those initiatives. We also delivered \$6.1 million in earnings before interest, tax, depreciation and amortisation for the year, although at the statutory level Neptune reported a loss due to a number of goodwill impairments.

Furthermore, throughout the year there were a number of changes to Neptune's Board, which were made in line with a review completed in conjunction with consultants Gerard Daniels. Neptune now has a completely new Board from when the restructure initiatives commenced almost two years ago.

Since the last Annual General Meeting, Neptune has added Jeff Dowling and John Cooper as Non-Executive Directors. These appointments have significantly strengthened our Board as Neptune enters a challenging period. I joined the Board in July last year as a Non-Executive Director and commenced as Chairman of the Company on October 1, replacing Ross Kennan, who retires from the



Board today. I would like to take this opportunity to thank Ross for his service to Neptune over the past five years.

*Takeover offer*

As you are likely aware, on the 30th of October 2012, MTQ announced a takeover bid in which its wholly owned subsidiary, Blossomvale, intends to acquire all of Neptune's issued shares that it does not already own. MTQ is Neptune's biggest shareholder, with an ownership interest of 21.06 per cent. The offer is priced at 3.2 cents per share in cash, a 33 per cent premium to Neptune's last closing price of 2.4 cents per share. It will remain open until 5pm on Friday, 14 December, unless extended or withdrawn by MTQ. I will outline your Board's response to this offer after the formal business of today's meeting.

I will now hand over to Neptune's CEO Robin King to provide an overview of the Company's operations.



## **ROBIN KING, CHIEF EXECUTIVE OFFICER - ADDRESS**

### *Introduction*

Thank you, Peter. As the Chairman has outlined, my presentation today will focus on the operations of Neptune – I'll leave matters regarding MTQ's takeover bid to the Chairman and the Board.

It is my pleasure to be able to report that during the year we continued to make progress with our strategy of rebuilding the Neptune business.

Last year I confirmed to you that as part of our turnaround we reduced annualised overhead costs significantly, commenced work to strengthen our management team, and eliminated term debt.

Since then as part of our ongoing restructuring plan we have embarked on several new opportunities in line with our business objectives and growth strategy.

As a result, Neptune delivered a profit for the year before impairments and discontinued operations, reported a positive cash flow from operations, and ended the year with a net positive working capital position.

We are now in a better position to meet the challenges that we face in the future however it is clear that the operating environment for Neptune is challenging with increasing demand on available capital to pursue business objectives and execute the growth strategy, for example updating of our existing ROV fleet.

### *Restructure Plan*

In respect to the restructuring plan, the key elements that we completed since our last AGM include the sale of Neptune's *ROV Supporter* vessel, the sale of the Company's Australian fabrication business to Kempe Engineering and the sale of our underperforming US diving business to a US-based private equity firm. We have also continued to address our overhead costs, with our total overheads in FY2012 being 40 percent below the total overhead costs in FY2011.

### *2012 results*

In terms of our result for the 2012 financial year, I was pleased that we were able to achieve revenue broadly in line with the previous year at \$116.3 million – a reasonable result in a turnaround period and a competitive operating environment.

With regard to earnings, the Company reported a \$39.9 million statutory loss for the year. This was largely due to goodwill impairments however our underlying result from continuing operations was a \$6.1 million earnings before interest, tax, depreciation and amortisation.

As a result of our return to underlying profitability, the Company delivered a \$4.5 million positive cash flow from operations, and at the end of June Neptune had a net working capital position of \$29.5 million. This has now placed Neptune in a better position as we continue to pursue the Company's growth strategy.



### *Strengthened team*

One of my key objectives as CEO has been to build the strength of our management group. Shortly before last year's annual general meeting Colin Napier joined us as Chief Financial Officer. Throughout the year, Colin made a number of important improvements to our reporting standards and procedures, which have been vital in better analysing the financial performance of our businesses in a timely manner.

We have also recently appointed Vincent Allegre to the role of Chief Operating Officer. Vincent has brought strong project, commercial and operating experience to the role and is utilising these skills to support our strategy of growing our businesses in key geographic areas.

### *Safety*

To operate in the oil and gas industry it is an absolute imperative that Neptune has a safety standard of the highest order. I am pleased to report that in the year we delivered a 25 per cent reduction in the group total reportable injury frequency rate. We had originally set this as a stretch target and I am very pleased that we managed to achieve this result.

Recently we also reached the following milestones :

- 1,000 days LTI free in both our diving and stabilisation businesses
- 500 days LTI free in Asset Integrity
- And over 1 year LTI free in our UK manufacturing business

All of these are excellent achievements by our operations teams that we are very proud of.

As part of our focus on safety, 151 staff went through the Company's "Nepsafe" training course. Training of our staff will be ongoing as we continue to strive for improved safety performance in the current year.

### *Growth initiatives*

During the year the management team worked to expand Neptune's operations organically and develop strategic partnerships to offer our services in new geographic areas, in line with our growth strategy.

During the year we opened a service facility at Dampier in Western Australia, further developed our base in Darwin and opened a facility in Melbourne to service the Bass Strait region. We are also pursuing expansion into the growing Gladstone region.

We also had success in building strategic partnerships.

Last month, we signed an agreement with Beacon SubSea Limited which assists us to provide our services into Thailand. We have also signed an agreement with Coral Alliance which gives us access to the licenses required to work in Malaysia. In the UK we have also signed a service agreement with BP which further secures a long relationship.

These relationships are crucial in further expanding Neptune's operations into key markets and allow us to tender for some key contracts going forward, particularly in the buoyant Asia region.



In August this year, Neptune, in partnership with Bhagwan Marine, secured a five year contract with a potential two year extension to supply a new shallow water dive support vessel and related services to Apache Energy. Under this agreement, Apache will use the vessel for a minimum of 150 days per year which provides a solid foundation for Neptune.

#### *Project Highlights*

It is particularly pleasing for me to report that during the year Neptune continued to win quality work across all of the Company's businesses. By way of illustrating the breadth and scope of this work, examples of what has been performed by Neptune include:

- Completion of a cable lay project in Northern Territory.
- Delivering on an ongoing maintenance project at Barrow Island.
- Servicing one of the world's largest offshore wind farms in the North Sea.
- Inspection, repair and maintenance work in Australia's north-west, which incorporated our engineering, survey and diving teams.
- Completion of a third subsea inspection program for Qatargas.
- Inspection of the world's highest pipeline bridge in the Southern Highlands of Papua New Guinea.
- The design and manufacture of a BoP capping stack for a major operator in the North Sea, and
- The design, manufacture and installation of a subsea tree handling system in the South China Sea.

#### *Our performance since the end of the year*

With regard to our performance since the end of the last financial year, we have recently signed a contract which will result in Neptune performing, in January 2013, its first saturation diving project in Australia, in conjunction with a key vessel partner. This will deliver approximately \$6 million in revenue to Neptune and we are pursuing additional work off the back of this initial contract.

However, despite the significant changes we have made in the business, we have been experiencing a challenging environment in which to try to win work. We have also seen a noticeable increase in the number of competitors in our traditional market sectors and aggressive pricing points offered by these competitors.

While the longer term outlook for the oil and gas services market in our targeted markets in Australia and overseas remains positive, a number of contracts over recent months have not been awarded in the timeframe that we had previously anticipated, or contracts have been awarded to new competitors in the ever increasingly competitive market. These factors have had an adverse impact on our anticipated performance for the first half of FY2013, which is estimated to result in a net loss of between \$2.8 and \$3.5m for the half period. This estimation is prior to taking into account any one-off expenditure in relation to responding to the MTQ Offer. We expect earnings for FY2013 will be weighted to the second half of this financial year.



### *Our strategy going forward*

Looking to the future, but at the same time acknowledging that if MTQ achieves majority ownership it may review our current strategy, we continue to be absolutely focused on our goal of being viewed by clients as a preferred supplier. This will stem from our reputation as a supplier that is flexible and responsive, delivers quality services and overall being seen by clients as 'good to do business with'.

Our strategy is to build on this reputation, not just on price but based on our reliability, our skill sets, our innovative solutions and our delivery of quality work both through our individual businesses and our integrated solutions model. We will continue to broaden and grow our revenue base by targeting further strategic partnerships, and framework agreements.

I am also very conscious that as a company we need to maintain a vigilant focus on costs and operating efficiencies. This is an ongoing process that we have carried into the current year.

### *Conclusion*

While we are still working towards achieving our bottom line budget objectives, Neptune has achieved much over the past year. Through the final divestment of underperforming assets and businesses, a reduction in costs, and our expanding operations – both organically and through strategic partnerships – we remain focused on capitalising on upcoming opportunities in order to meet the challenges that we are facing.

My focus continues on delivering on the Company's growth strategy and improving profitability.



## **PETER WALLACE, CHAIRMAN - TAKEOVER UPDATE**

As mentioned earlier, on the 30th of October 2012, Neptune received a takeover bid from Neptune's largest shareholder, MTQ Corporation, through its wholly-owned subsidiary, Blossomvale Investments. MTQ currently has an ownership interest in Neptune of 21.06 per cent and has proposed to acquire the issued shares it does not own for 3.2 cents per share in cash. This represents a 33 per cent premium to Neptune's last closing price of 2.4 cents per share immediately prior to the announcement of the offer. The offer opened on 13 November 2012 and will end at 5pm on Friday, 14 December, unless it is extended or withdrawn.

In order to respond to this unsolicited bid, Neptune's Board formed an independent response takeover committee to consider the offer. We also appointed legal and corporate advisors, and engaged accounting firm BDO Corporate Finance as an independent expert to consider whether the offer is fair and reasonable to shareholders.

Your independent directors recommend that you accept the offer in the absence of a superior proposal, and subject to the independent expert continuing to be of the opinion that the offer is fair and reasonable to Neptune's shareholders.

There are a number of compelling reasons for shareholders to accept the offer, which have been outlined in detail in the Target's Statement that has been lodged to the ASX and is also available on Neptune's website. I would like to summarise our reasons for making this recommendation. These include that:

- It represents a premium to recent trading prices for Neptune shares.
- The independent expert has concluded that the offer is fair and reasonable to shareholders.
- The offer is a straightforward cash offer for which you will receive certain and immediate value for your investment at a time when trading in Neptune shares has often been relatively illiquid.
- The current, highly competitive operating environment for Neptune is challenging, with increasing demand on available capital to pursue business objectives and execute our growth strategy. It may be that external funding is required to provide that capital. For example, we will need use capital to modernise our ROV fleet in order to remain competitive and win contracts.
- The offer removes the risk of your shareholding being diluted through any potential future capital raisings to fund future growth requirements.

Furthermore, your independent directors have noted that:

- There may be adverse consequences associated with being a minority shareholder, which could occur if MTQ acquires more than 50 per cent of Neptune's shares but is not entitled to proceed with compulsory acquisition.
- Neptune's share price may decline below current levels if the offer is unsuccessful and lapses, at least in the short term.
- Shareholders who accept the offer will generally not pay brokerage or other transaction costs.



- And finally, no other offer has been made to purchase your Neptune shares.

In considering whether to accept the offer, your independent directors encourage you to read the Target's Statement and the Bidder's Statement in full, have regard to your personal circumstances, and obtain financial advice.

I am happy to now take any questions around the offer or your independent directors' recommendation.