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Company Announcements Office  
Australian Securities Exchange Limited  
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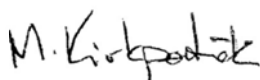
**Emeco Holdings Limited (ASX:EHL) – Results for announcement to the market**

**Results for the year ended 30 June 2011**

Attached for immediate release to the market are the following documents:

- the Emeco Holdings Limited Appendix 4E – preliminary final report for the financial year ended 30 June 2011; and
- Emeco Holdings Limited's annual financial report, auditor's report and directors' report.

Yours faithfully



**Michael Kirkpatrick**  
Company Secretary



RENTAL | SALES | PARTS | ASSET MANAGEMENT

Emeco Holdings Limited | [ACN 112 188 815](http://www.emecogroup.com)

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# APPENDIX 4E

## Preliminary Final report

### Period Ended 30 June 2011

Name of entity

Emeco Holdings Limited

ABN or equivalent company reference

A.C.N. 112 188 815

#### Results for announcement to the market

Reporting Period: Year ended 30 June 2011 (Previous corresponding period: year ended 30 June 2010)

|                                                                                  | %      | 2011        | 2010        |
|----------------------------------------------------------------------------------|--------|-------------|-------------|
|                                                                                  | Change | \$A million | \$A million |
| Revenues from ordinary activities                                                | 11.7%  | 515.5       | 461.7       |
| Profit from ordinary activities after tax attributable to members of Emeco Group | 200.6% | 49.6        | (49.3)      |

#### Dividends

Date the dividend is payable

30 September 2011

Record date to determine entitlements to the dividend

5 September 2011

#### Amount per security

|                   |               | Amount per security                         | Franked amount per security                 |
|-------------------|---------------|---------------------------------------------|---------------------------------------------|
| Final Dividend:   | Current year  | 3.0 cents                                   | 3.0 cents                                   |
|                   | Previous year | 2.0 cents                                   | 2.0 cents                                   |
| Interim Dividend: |               | Amount per security                         | Franked amount per security                 |
|                   | Current year  | Ordinary – 2.0 cents<br>Special – 5.0 cents | Ordinary – 2.0 cents<br>Special – 5.0 cents |
|                   | Previous year | -                                           | -                                           |
|                   |               | Amount per security                         | Franked amount per security                 |
| Total Dividend:   | Current year  | Ordinary – 5.0 cents<br>Special – 5.0 cents | Ordinary – 5.0 cents<br>Special – 5.0 cents |
|                   | Previous year | 2.0 cents                                   | 2.0 cents                                   |

## **APPENDIX 4E**

### **Preliminary Final report**

### **Period Ended 30 June 2011**

#### **Ratios and Other Measures**

NTA backing

Net tangible asset backing per ordinary security

| Current Period | Previous<br>corresponding<br>Period |
|----------------|-------------------------------------|
| \$0.68         | \$0.70                              |

#### **Details of loss of control of entities having material effect**

No control over any entities was lost during the period that had a material effect.

#### **Accounts**

This report is based on accounts that have been audited.

#### **Commentary on Results**

For commentary on the results of the Emeco Group, refer to the accompanying media release, audited financial report and directors' report.

**Emeco Holdings Limited and its Controlled Entities**

**ABN 89 112 188 815**

**Annual Financial Report**

**30 June 2011**

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# Chairman's Report

## HIGHLIGHTS

- ♦ Strategy launched in July 2010 translating to improved returns and TSR outperformance
- ♦ Total shareholder dividends of 10.0 cents declared for FY11, fully franked
- ♦ Business well positioned to benefit from strong activity levels and growing mining geographies

Dear Shareholder

We are pleased to present the Emeco Holdings Limited Annual Report for financial year 2010/2011 ("FY11").

## BUILDING A PLATFORM FOR SUSTAINABLE GROWTH

The past twelve months has been a time of exciting change and development for Emeco. In July 2010 we agreed that the best value creating strategy for Emeco was to focus our dry rental model more on serving our mining customers in the major mining provinces of the world. The early steps in implementing this strategy have produced very encouraging results.

Among the notable achievements during the year were the timely implementation of our restructuring initiatives, the successful refinancing of our debt facilities, advancing our people strategy and further investment in large mining equipment. These actions have translated into improved shareholder returns with Emeco achieving a Total Shareholder Return ("TSR") well in excess of the ASX 200 index over the past 12 months.

Despite a backdrop of ongoing volatility in global markets over the past year, we continued to observe significant growth in mining activity across all of our markets. Emeco's fleet utilisation reflected these strong activity levels resulting in net profit after tax before significant items (operating NPAT) improving by 36.3% to \$56.0 million and return on invested capital ("ROC") increasing from 8.3% to 11.3% over the past twelve months. Statutory NPAT for the full year was \$49.6 million reflecting a small loss from discontinued operations and a one-off debtor impairment in Indonesia.

During the year we had the opportunity to visit a number of Emeco's operating sites as well as meet with customers, both domestically and internationally. Meeting our employees and speaking directly with our customers to understand how Emeco adds value to their operations is always deeply informative. What we learn time and again are the benefits of Emeco's flexible fully maintained dry rental service. As we continue to focus on our strategic pillars of "optimise the core business" and "sustainable growth", we will keep our customers' changing needs at the forefront of our planning to ensure we develop long-term mutually beneficial partnerships.

## MANAGING CAPITAL EFFICIENTLY

Central to delivering acceptable returns to shareholders is ensuring investment is directed towards quality assets, with any excess capital being duly returned to shareholders if it is surplus to the Company's needs.

As part of the strategic review we identified a number of non-core businesses and assets that have subsequently been disposed. These activities have resulted in the release of over \$56 million, or 8.9 cents per share, in underperforming capital over the course of FY11.

Of the total capital released, the Board resolved to return \$31.6 million to shareholders in the form of a 5.0 cents per share fully franked special dividend. This initiative returned surplus capital and distributed some surplus franking credits to shareholders while maintaining the balance sheet capacity and gearing levels to pursue growth. In addition the Directors have declared interim and final dividends of 2.0 cents per share and 3.0 cents per share, both fully franked.

During the year we also successfully refinanced our debt facilities with our existing banking syndicate, achieving certainty around funding availability over the next three to five years to meet our growth objectives.

## **SAFETY**

The safety of our employees and those we work with is a key priority of the Board and we remain committed to continuous improvement in this area and our ultimate objective of “zero harm”. Emeco continues to progress towards creating a world class safety management culture and we remain vigilant and committed to making Emeco an even safer workplace.

## **OUR PEOPLE, COMMUNITY AND THE ENVIRONMENT**

I am pleased to report that Emeco is publishing its inaugural sustainability report within the FY11 annual report. This re-enforces the Company’s ongoing commitment to its people, community and environment.

We are working to deepen our engagement with the community and to improve our approach to measuring and managing our environmental footprint. I’m confident we are making the necessary progress in these areas, while delivering long-term, satisfactory returns to our shareholders.

Our employees continue to make outstanding contributions to the success of the Emeco business. On behalf of the Board I would like to take this opportunity to thank everyone for their efforts over the past twelve months and for their ongoing commitment.

## **THE FUTURE**

In recent months we have seen the re-emergence of risks to the global economy and financial system. We believe we are in a good position to manage these risks and we remain alert to the environment in which we operate.

At the same time we continue to observe robust commodity demand from emerging market economies which is driving strong fundamentals for the global mining industry. As a service provider to the mining sector, Emeco retains a positive outlook on activity levels in the near term which underpins the significant capital investment program being pursued in FY12 and provides opportunities for geographic expansion into the world’s major mining regions.

The Company now has a solid base from which to grow having completed the restructure. In the year ahead, we will continue our focus on improving the performance of our existing businesses while pursuing growth which delivers superior returns for our shareholders.



Alec Brennan  
Chairman

# Managing Director's Report

## HIGHLIGHTS

- ♦ Restructure activities completed in FY11 with business improvements continuing - “Optimise the Core”
- ♦ Strategic focus now on “Sustainable Growth” of large mining fleet in global mining regions
- ♦ Clearly articulated goal of consistent value creation for shareholders
- ♦ Further improvement in Safety performance with LTIFR at 2.4 per million man hours

The primary objective of the strategy I outlined in July 2010 was to improve returns and deliver value to shareholders. It is timely to reflect on the progress we have made over the last twelve months, the contributions made by our people across the business, and the continued growth in activity in our core markets, which together have resulted in our return on capital improving to 11.3% in FY11 (FY10: 8.3%).

## MARKET OVERVIEW

Over the past twelve months we have witnessed continued growth in activity across the resource sector globally, which has translated into strong demand for Emeco's equipment rental and maintenance services. We achieved strong fleet utilisation in the first half of the year, building on the momentum we experienced at the end of FY10. While utilisation has marginally declined in the fourth quarter due to some specific issues in Canada and Indonesia, underlying market fundamentals remain strong.

The Emeco Group delivered an operating NPAT of \$56.0 million in FY11, representing a 36.3% increase on FY10. Statutory NPAT for the year was \$49.6 million inclusive of a small loss from discounted operations and a one-off debtor impairment in Indonesia.

The performance of the Australian rental business reflected the well-documented strength of the country's resource sector. Emeco's significant exposure to coal, gold and iron ore underpinned average utilisation of 89% in FY11, up from 78% in FY10. While the wet weather events in Queensland somewhat impacted earnings, the overall performance of the Australian business in FY11 was encouraging and set a benchmark for our businesses operating in other markets.

FY11 was the first year that the Canadian business had a full mining fleet aligned to the oilsands and coal markets following the restructuring of the fleet throughout FY10. Average utilisation recovered from 57% in FY10 to 78% in FY11, and return on funds employed improved from 2.8% to 11.3% over the past year. There is more work required to lift returns to acceptable levels, however the improved performance in FY11 and the early success with strategies being pursued to further develop the business provides a solid foundation to drive performance higher over the coming years.

The performance of the Indonesian business in FY11 dampened an overall positive year for the Emeco Group. Despite utilisation remaining flat year on year at around 76%, Indonesia's earnings were significantly impacted by a debtor impairment related to our largest customer in the region. The residual costs of removing the fleet from site further reduced earnings in the second half. However, the outlook for Indonesia is positive with strong underlying volume growth, some new customers, and management in place to capitalise on these opportunities.

## STRATEGY

When we communicated our strategy to the market in July 2010 we identified two areas of focus which will deliver value to shareholders. These were **continual optimisation of the core business** and **disciplined investment in global mining markets to deliver sustainable growth**.

### Optimise the Core

The efforts and achievements of our people over the past twelve months were largely focussed on optimising the business. This included refocusing our operations on growing mining markets, liberating underperforming capital, capturing cost and operating efficiencies and enhancing the customer value proposition. Across Emeco we completed a broad range of activities including the closure or disposal of the USA, Europe, and Victorian businesses, reconfiguring our fleet in Canada and Australia, improving internal processes, and developing and implementing our strategy for Emeco people.

These activities converted \$56.1 million of underperforming capital into cash in FY11 which was in part returned to shareholders and in part reinvested in organic growth capital. In addition, we expect our continued focus on business improvement initiatives to deliver a range of benefits including cost efficiencies and reduced commercial and operating risk.

Our primary objective in the first year of our strategy was to refocus the business strategically and financially. I'm satisfied that we have met this objective in FY11, with Emeco now comprising three mining Rental businesses in Australia, Indonesia and Canada plus complimentary Procurement, Disposal and Parts capabilities. With the restructure activities now complete, Emeco is well positioned to deliver acceptable shareholder returns.

### Sustainable Growth

We are currently observing strong market fundamentals for coal, iron ore and gold in Australia, coal in Indonesia and oilsands in Canada. This dynamic represents organic growth opportunities for Emeco, and we continue to pursue project based opportunities that require fleets of equipment and on-site maintenance support and expertise.

Further, a review of our fleet strategy concluded that large mining equipment consistently delivered higher returns across the mining cycle and as a result we have committed \$165 million to organic growth investment in large mining equipment in FY12. These investments will be deployed across Australia and Canada throughout the year and will be a key contributor to earnings growth in FY12. However, transportation and preparation of equipment new to the fleet can take several months from the time of payment and for this reason we expect most of the improvement in return on capital from these investments to be realised in FY13 when we will realise a full year of earnings from the expanded capital base.

In a market where equipment availability is challenging, the value of our global procurement capability has been demonstrated with our investment program in FY12. The ability to source equipment from the global market provides flexibility to grow and enables us to provide our customers with equipment without them being constrained by long lead times for new equipment. The completion of our business restructure program and our balance sheet capacity allows us to explore other avenues for growth. However, whether it is organic growth, geographic expansion or growth by acquisition, we remain very mindful of our focus on creating value for shareholders.

### **PEOPLE & SAFETY**

In addition to executing business and fleet strategies during the year, we developed and established our strategy for Emeco's people. Based on feedback from our employees, we launched "Empower" (our people strategy) and our global vision, mission and values. Empower aims to build a common understanding for all employees about our goals as a business, explain how all employees can contribute to the success of the business, and increase employee engagement. Empower is about making Emeco a great place to work. As part of Empower, we have launched a number of initial improvement projects centred around training and development, career planning and performance management. We firmly believe that investment in our people is key to Emeco's future success.

Safety remains a top priority for the Board and Executive Leadership Team. Over the course of the year we continued to make progress in enhancing Emeco's safety management systems and capability. Pleasingly, we saw a reduction in the Lost Time Injury Frequency Rate ("LTIFR") to 2.4 per million man hours for the twelve months to 30 June 2011.

I would like to thank each and every one of our employees for maintaining their focus on safety, for their tireless efforts in delivering results aligned to our strategy and their contribution towards ensuring we have a safe and compliant workplace for Emeco people and those we work with.

## LOOKING FORWARD

As we look to FY12 and beyond, we are aware of the emerging risks to global economic growth and the potential impact on commodity volumes. Notwithstanding these broader economic risks, the current outlook is for further growth in earthmoving volumes given the strong commodity fundamentals and a positive outlook for the resources sector.

As a result, I expect Emeco to benefit from this dynamic with strong fleet utilisation and the opportunity to grow the business through organic growth, geographic expansion or acquisition, being mindful that growth must be sustainable and exceed the Company's hurdle rates on a risk adjusted basis.

The Company has a clearly articulated focus on consistent value creation for shareholders. With a strong presence and committed teams in our key markets of Australia, Indonesia and Canada, I am confident that we will make further progress in delivering on our objectives in FY12.



Keith Gordon  
Managing Director & Chief Executive Officer

# Chief Financial Officer's Review

## HIGHLIGHTS

- ♦ **Significant improvement in NPAT and ROC in FY11**
- ♦ **Debt refinance, facility headroom and comfortable gearing provides tenor and flexibility**
- ♦ **Cash realised from restructure activities partly returned to shareholders and partly funding growth**

Our focus during FY11 was on consolidating Emeco's operating and financial fitness ("optimise the core") which we identified as the first step to delivering long term acceptable returns to shareholders.

Against a backdrop of significant growth in earnings and operating cashflow over the past year, the Company's financial position was further secured by refinancing the Company's debt facilities, liberating underperforming capital and investing in targeted fleet for future growth. These achievements have ensured that Emeco is capable of sustainably growing the business in the coming years.

## FINANCIAL RESULTS

| A\$ millions      | Operating (pre significant items) |              |         | Statutory (post significant items) |              |         |
|-------------------|-----------------------------------|--------------|---------|------------------------------------|--------------|---------|
|                   | FY10                              | FY11         | YOY %   | FY10                               | FY11         | YOY %   |
| Revenue           | 444.4                             | 502.5        | 13.1%   | 461.7                              | 515.5        | 11.6%   |
| EBITDA            | 190.4                             | 223.3        | 17.3%   | 116.7                              | 217.3        | 86.1%   |
| EBIT              | 83.6                              | 101.2        | 21.0%   | (11.4)                             | 92.3         | 907.8%  |
| <b>NPAT</b>       | <b>41.1</b>                       | <b>56.0</b>  | 36.3%   | <b>(49.3)</b>                      | <b>49.6</b>  | 200.6%  |
| Invested Capital  | 1005.4                            | 896.9        | (10.8)% | 1005.4                             | 896.9        | (10.8)% |
| <b>EBIT ROC %</b> | <b>8.3%</b>                       | <b>11.3%</b> | 35.7%   | <b>(1.1)%</b>                      | <b>10.3%</b> | 1005.6% |

Group operating revenue was up 13.1% to \$502.5 million in FY11, due to strong demand from our mining customers. Revenue growth in FY11 was largely attributable to a full year of high utilisation in Australia and Canada, growth in maintenance services, improved pricing and the deployment of organic growth capital.

Mining customers represented 66% of Group rental revenue in FY11 with 64% of revenue from mine production activities, reflecting Emeco's customer profile quality and its leverage to the mining production cycle. Revenues from the Sales and Parts businesses were broadly flat year on year as inventories were downsized and repositioned to align with the mining rental fleet.

Direct operating costs increased in FY11 in line with higher utilisation, however additional cost pressures have emerged in some regions as the supply of labour and parts continues to tighten. Overheads increased reflecting an investment in the additional operating and corporate capabilities required for delivering sustainable growth.

Operating EBIT and EBITDA margins both improved marginally year on year benefiting from fixed cost leverage, direct cost efficiencies and some price increases. The performance of the Indonesian business in FY11 partially offset these positive factors. Operating EBIT increased 21.0% in FY11 whereas EBITDA increased by 17.3% reflecting the earnings leverage due to the fixed component of depreciation charged on idle equipment to ensure carrying values of our fleet are preserved across the economic cycle.

Profit on sale of rental assets ("POSA") contributed \$2.8 million to EBIT in FY11 (FY10: \$2.9 million) on rental fleet disposals of \$34.6 million (FY10: \$44.5 million).

The Australian dollar appreciated approximately 27% against the US dollar over FY11 which adversely impacted the translation of earnings from our offshore businesses. However, we employ a natural hedging strategy on foreign currency risk for the international businesses whereby our local earnings and cashflows including revenues, costs, assets and debt funding are either in US or Canadian dollars.

Despite a lower average debt level in FY11, interest costs were flat year on year due to the refinancing of Emeco's debt facilities in November 2010 which resulted in higher interest rates. Borrowing costs also included the write-off of \$0.8m in capitalised borrowing costs at the time of the refinancing as these costs related to the previous facility.

As a result of the above factors operating EBIT was up 21.0% to \$101.2 million in FY11, and operating NPAT before significant items increased by 36.3% from \$41.1 million to \$56.0 million in FY11.

During FY11 Emeco incurred one-off significant items totalling \$6.4 million (post tax), resulting in a statutory NPAT of \$49.6 million for the year. The one-off items (on a post tax basis) include a \$0.4 million loss from discontinued operations and a \$6.0 million debtor impairment in Indonesia. A summary of the FY10 significant items can be found in the 2010 Annual Report.

Further regional analysis is provided in the Review of Operations section.

## **CASH FLOW & BALANCE SHEET**

During FY11, we further enhanced our balance sheet capacity through releasing working capital, disposing of underperforming assets and maintaining a disciplined approach to capital investment. The Group generated free cash flow before growth capital investment and dividends of \$144.9 million which included working capital and inventory release of \$46.6 million, disposal proceeds of \$53.9 million and \$87.5 million investment in sustaining capital expenditure.

During the year we made targeted investments in high quality fleet based on our positive view of long-term growth in earth moving volumes. We took advantage of our balance sheet capacity and invested \$105.8 million in large mining fleets in FY11 to meet emerging demand in Australia and Canada. \$60 million of the FY11 growth capital relates to the \$165 million investment program announced in June 2011 which we expect to deliver significant earnings growth in FY12 and higher returns in FY13.

The Group's net debt reduced by \$8.7 million to \$291.5 million at 30 June 2011. The net change was the combination of a \$26.0 million translation benefit from the appreciation of the AUD, offset by a \$17.3 million increase in underlying debt. Due to the strong operating cash flow and liberation of underperforming capital, we were able to invest for future growth and return funds to shareholders while maintaining a comfortable level of debt.

During the year Emeco's senior debt facilities were renewed with our existing banking syndicate in order to meet the medium term capital requirements of the business. Credit market improvements over the past 12 months allowed tenor to be extended to include a mix of 3 and 5 year maturities which further enhances our funding risk profile. At 30 June 2011 gearing is 1.38 times (Total Debt: normalised EBITDA), which is below our target range of 1.5 – 2.0 times, with undrawn facilities of \$198.9 million providing capacity for future investment opportunities.

## **RETURN ON CAPITAL**

The combination of earnings growth in Emeco's core businesses and liberation of underperforming capital during the year has driven an improvement in ROC from 8.3% to 11.3% in the 12 months to 30 June 2011.

The Australian rental business continued to deliver good returns with Return on Funds Employed ("ROFE") (defined as operating EBIT divided by invested capital less goodwill) of 23.8% in FY11. Canada's ROFE improved markedly from 2.8% in FY10 to 11.3% in FY11, however we expect the combination of additional scale, improved pricing and commodity diversification to deliver higher returns in the future. Indonesia's returns underperformed in FY11 at 6.5%, however we are confident with an improved customer profile and the positive outlook for the Indonesian coal market that returns will recover in the near term.

Looking ahead, we are targeting further improvements in ROC through disciplined allocation of incremental capital into our core businesses, application of our pricing strategies, and cost efficiency initiatives.



Stephen Gobby  
Chief Financial Officer

## Review of Operations

### HIGHLIGHTS

- ♦ High level of mining activity in all core rental geographies
- ♦ Australia and Canada outperforming with growth capex to drive earnings in FY12
- ♦ Indonesian debtor impairment impacting FY11 but strong fundamentals and prospects exist

### THE EMECO GROUP

The Group's operating revenue of \$502.5 million and operating NPAT of \$56.0 million were up 13.1% and 36.3% respectively compared to the prior financial year FY10. The improvement in earnings were attributable to higher average rental fleet utilisation of 85% across the year (FY10: 72%) and additional contribution from the investments in large mining equipment made over FY10 and FY11. The Group result also benefited from exiting under-performing businesses.

Significant one-off items excluded from operating NPAT comprise a \$6.0 million (post tax) debtor impairment in Indonesia and a post tax loss of \$0.4 million from discontinued operations relating to residual assets and liabilities from the USA, Europe and Victoria businesses.

### AUSTRALIAN RENTAL

| A\$ millions                | Operating (pre significant items) |              |              | Statutory (post significant items) |              |              |
|-----------------------------|-----------------------------------|--------------|--------------|------------------------------------|--------------|--------------|
|                             | FY10                              | FY11         | YOY %        | FY10                               | FY11         | YOY %        |
| Revenue                     | 250.9                             | 327.2        | 30.4%        | 270.7                              | 336.7        | 24.4%        |
| EBITDA                      | 141.2                             | 185.3        | 31.3%        | 128.8                              | 186.2        | 44.6%        |
| <b>EBIT</b>                 | <b>72.9</b>                       | <b>98.3</b>  | <b>34.9%</b> | <b>55.1</b>                        | <b>96.5</b>  | <b>75.2%</b> |
| Fleet WDV at 30 June        | 351.2                             | 421.2        | 19.9%        | 388.0                              | 429.3        | 10.7%        |
| Funds Employed <sup>1</sup> | 382.1                             | 413.8        | 8.3%         | 425.0                              | 435.7        | 2.5%         |
| <b>EBIT ROFE %</b>          | <b>19.1%</b>                      | <b>23.8%</b> | <b>24.6%</b> | <b>13.0%</b>                       | <b>22.1%</b> | <b>70.9%</b> |

(1) Funds employed defined as average 'invested capital less goodwill' for the period.

Emeco's Australian rental business is leveraged to low cost bulk commodity and metal producers in Queensland, New South Wales and Western Australia. During the year 39% of revenue was derived from coal, 21% from gold, 12% from zinc and 28% from other commodities (iron ore, copper and construction). Mining customers represent 81% of Australian revenue, with the balance of revenue mainly from large contractors.

Operating EBIT increased 34.9% to \$98.3 million in FY11 and ROFE improved from 19.1% to 23.8% reflecting sustained production and expansion activity across the resource sector in Australia. The improvement in earnings was the combination of higher average utilisation of 89% (FY10: 78%) and deployment of growth capital during the year.

The Queensland operations delivered a significant increase in earnings. The business enjoyed a full year of high utilisation following a year of recovery in FY10. Wet weather impacted production hours over a number of months in the second half of the year and delayed the deployment of a new truck fleet to a customer due to road closures. Underlying fundamentals in this market remained intact with a strong recovery in the fourth quarter of FY11 following the extended wet season.

The Western Australian business also made a major contribution to the earnings improvement in Australia having redeployed a large quantity of idle fleet into new projects during the second half of FY11. Sustained demand for equipment in gold, coal and iron ore in Western Australia translated into a solid operating performance in FY11.

New South Wales maintained consistently high utilisation in FY11 underpinned by high activity levels in thermal coal while successfully managing the redeployment of two major fleets into new contracts during the year.

The loss from the Victorian rental discontinued operation has been excluded from the operating result.

## INDONESIAN RENTAL

|                      | Operating (pre significant items) |             |                | Statutory (post significant items) |               |                 |
|----------------------|-----------------------------------|-------------|----------------|------------------------------------|---------------|-----------------|
| A\$ millions         | FY10                              | FY11        | YOY %          | FY10                               | FY11          | YOY %           |
| Revenue              | 49.3                              | 44.6        | (9.6)%         | 49.3                               | 44.6          | (9.6)%          |
| EBITDA               | 33.5                              | 21.0        | (37.3)%        | 33.5                               | 13.1          | (61.0)%         |
| <b>EBIT</b>          | <b>15.8</b>                       | <b>5.3</b>  | <b>(66.7)%</b> | <b>15.8</b>                        | <b>(2.7)</b>  | <b>(116.9)%</b> |
| Fleet WDV at 30 June | 84.3                              | 53.7        | (36.3)%        | 84.3                               | 53.7          | (36.3)%         |
| Funds Employed       | 106.6                             | 80.4        | (24.6)%        | 106.6                              | 80.4          | (24.6)%         |
| <b>EBIT ROFE %</b>   | <b>14.8%</b>                      | <b>6.5%</b> | <b>(55.8)%</b> | <b>14.8%</b>                       | <b>(3.3)%</b> | <b>(122.4)%</b> |

Emeco observed increased activity across the Indonesian resource industry in FY11, resulting in strong demand for mining equipment. Utilisation averaged 77% across the year (FY10: 76%). Despite positive underlying performance, the statutory result was impacted by a debtor impairment of \$6.0 million (post-tax) in 1H11.

Operating earnings were further affected in 2H11 as Emeco incurred \$2.7 million of fleet repair and demobilisation costs that would ordinarily be recharged to the customer involved.

The fleet WDV decreased by 36.3% during FY11 due to depreciation of the equipment and the \$3.3 million impairment of equipment damaged while being demobilised.

A new management team has been transitioned into the business in FY11 with the objective of targeting higher quality customers to improve utilisation, reduce credit risk and improve returns.

## CANADIAN RENTAL

|                      | Operating (pre significant items) |              |               | Statutory (post significant items) |              |               |
|----------------------|-----------------------------------|--------------|---------------|------------------------------------|--------------|---------------|
| A\$ millions         | FY10                              | FY11         | YOY %         | FY10                               | FY11         | YOY %         |
| Revenue              | 37.8                              | 64.9         | 71.7%         | 37.8                               | 64.9         | 71.6%         |
| EBITDA               | 15.4                              | 32.6         | 112.5%        | 7.6                                | 32.6         | 331.8%        |
| <b>EBIT</b>          | <b>3.1</b>                        | <b>14.0</b>  | <b>348.0%</b> | <b>(4.7)</b>                       | <b>14.0</b>  | <b>400.6%</b> |
| Fleet WDV at 30 June | 105.5                             | 102.9        | (2.5)%        | 105.5                              | 102.9        | (2.5)%        |
| Funds Employed       | 110.0                             | 124.2        | 13.0%         | 110.0                              | 124.2        | 13.0%         |
| <b>EBIT ROFE %</b>   | <b>2.8%</b>                       | <b>11.3%</b> | <b>296.6%</b> | <b>(4.2)%</b>                      | <b>11.3%</b> | <b>366.1%</b> |

Canada's performance improved markedly in FY11 following the reconfiguration of Emeco's fleet in this market towards large mining equipment suitable for mine production and reclamation works in the oil sands region.

The new fleet mix and the continued ramp up in activity in the Canadian oilsands contributed to improved utilisation levels averaging 77.6% (FY10: 56.9%). In addition to increasing dry-hire rental revenues, the business also expanded maintenance services income which contributed \$1.2 million in revenue to the FY11 result.

Whilst an extended thaw period and slow start to the oilsands summer works program impacted 4Q11 earnings the business delivered a significant year on year improvement in operating EBIT and ROFE.

## AUSTRALIAN SALES & PARTS

|                      | Operating (pre significant items) |             |                | Statutory (post significant items) |             |               |
|----------------------|-----------------------------------|-------------|----------------|------------------------------------|-------------|---------------|
| A\$ millions         | FY10                              | FY11        | YOY %          | FY10                               | FY11        | YOY %         |
| Revenue              | 66.9                              | 65.9        | (1.5)%         | 66.9                               | 65.9        | (1.5)%        |
| EBITDA               | 2.2                               | 0.9         | (59.8)%        | (24.5)                             | 0.9         | 103.6%        |
| <b>EBIT</b>          | <b>1.9</b>                        | <b>0.3</b>  | <b>(83.6)%</b> | <b>(25.3)</b>                      | <b>0.3</b>  | <b>101.2%</b> |
| Inventory at 30 June | 77.7                              | 42.7        | (45.0)%        | 77.7                               | 42.7        | (45.0)%       |
| Funds Employed       | 85.1                              | 57.2        | (32.8)%        | 85.1                               | 57.2        | (32.8)%       |
| <b>EBIT ROFE %</b>   | <b>2.2%</b>                       | <b>0.5%</b> | <b>(75.6)%</b> | <b>(29.8)%</b>                     | <b>0.5%</b> | <b>101.8%</b> |

Emeco's strategy for the Australian Sales & Parts businesses in FY11 was focused on exiting inventory not aligned to the core rental business target market. In line with this strategy these businesses contributed a small operating loss as margins were sacrificed in favour of cash release. Over FY11, \$29.9 million of underperforming capital was liberated, leaving combined inventories of \$42.7 million at 30 June 2011.



# Sustainability Report

## HIGHLIGHTS

- ♦ Inaugural sustainability report benchmarks existing performance
- ♦ Focus on aligning sustainability efforts to business and people strategies
- ♦ Workplace, community and environmental targets set for FY12 and beyond

## SUSTAINABILITY

At Emeco we are focused on the long term success of our business for the benefit of all our stakeholders. Our vision is to contribute to a sustainable and productive mining industry and to provide a great workplace for our people. We strive to positively contribute to the communities in which we operate and to mitigate the environmental impact of our operations, while delivering long-term, satisfactory returns to our shareholders.

We believe that to be a truly sustainable business we need to remain focused on our vision, to operate in alignment with our company values, proactively manage our financial and non-financial business risks, be collaborative, innovative and efficient in all we do.

## MANAGING SUSTAINABILITY

Over the past year Emeco has executed two key strategies (for business and people) to deliver long-term, sustainable benefits to all stakeholders.

There are three pillars of our business strategy and they represent our long term commitment to business sustainability. “Consistent Value Creation for Shareholders” will ensure our financial longevity, “Optimise the Core” focuses on operational efficiency within the boundaries of our vision and values and “Sustainable Growth” will ensure we target growth that is aligned to our capabilities and does not sacrifice the quality of earnings.

Enabling our business strategy is Empower, Emeco’s people strategy. Empower is about safe work practices at workplaces where Emeco people are empowered to achieve and succeed. It flows from our Company vision and through to our core values (behaviours). Empower is discussed in more detail in the Employee Engagement section of this Sustainability Report.

We believe that this approach is already helping to ensure that sustainability is integrated into our everyday operations and will help us to achieve our future goals in a sustainable manner.

**Table 1. FY11 Sustainability Risks and Opportunities**

| SUSTAINABLE GROWTH                   |                                            |                         |                                               |
|--------------------------------------|--------------------------------------------|-------------------------|-----------------------------------------------|
| Sustainability Risks & Opportunities | Our People                                 | Our Community           | Our Environment                               |
|                                      | Safety<br>Employee Engagement<br>Diversity | Community Participation | Environmental Management<br>Carbon and Energy |

## REPORTING APPROACH

During the second half of FY11, we undertook a great deal of internal and external research to identify our material sustainability risks and opportunities. This work was guided by our Enterprise Risk Management Framework and AccountAbility’s (<http://www.accountability.org/>) five part materiality test. It involved a review of our current systems and practices, an industry wide trend analysis and an extensive stakeholder interview process with peer companies, customers and employees.

While we already have a number of sustainability related policies and programs in place, this is the first year that we have comprehensively mapped our efforts across the global Emeco business. This is also the first year that Emeco will report publicly on sustainability performance and commitments based on factors deemed important to our business, shareholders and customers.

To ensure that our reporting can be benchmarked within our industry we have worked to the Global Reporting Initiative ("GRI") G3 Guidelines. We have applied the GRI's principles of materiality and completeness to determine the information that should be included in this Sustainability Report and referred to the GRI to guide the reporting of our profile disclosures, management approach and performance indicators.

This Sustainability Report is self-declared as a C level report in accordance with the GRI.

Information regarding recent environmental, workplace and community developments is presented in this Sustainability Report, as are the targets for improvement that we have set for the year ahead.

At Emeco, we are committed to providing meaningful and relevant performance information to our shareholders and broader stakeholders. As we collect more data on material aspects of our sustainability performance we plan to continually improve our sustainability reporting approach and disclosures.

## PERFORMANCE HIGHLIGHTS AND TARGETS

Emeco was established in Western Australia in 1972 and there have been numerous milestones and achievements throughout the Company's four decade history. One of our core Company values is Continuous Improvement and as such, we have set ourselves a number of sustainability targets for the coming year. These are shown in Table 2 along with a summary of our sustainability performance to date.

**Table 2. Sustainability Performance and Targets**

| Performance Areas |                          | FY11 Performance Highlights                                                                                                    | FY12 Performance Targets                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------|--------------------------|--------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| People            | Safety                   | <ul style="list-style-type: none"> <li>Reduced LTIFR by approximately 30%</li> </ul>                                           | <ul style="list-style-type: none"> <li>Progress towards zero harm through a further reduction in our LTIFR</li> <li>Implement contractor safety management system</li> </ul>                                                                                                                                                                                                                                                                |
|                   | Employee Engagement      | <ul style="list-style-type: none"> <li>Launch of Empower (people strategy and improvement projects)</li> </ul>                 | <ul style="list-style-type: none"> <li>Build a new company-wide intranet to improve global collaboration and to help all employees more efficiently share information</li> <li>Undertake a second company-wide culture survey</li> <li>Establish a training plan for each employee</li> <li>Continue to engage employees through the development and implementation of Empower communication activities and improvement projects</li> </ul> |
|                   | Diversity                | <ul style="list-style-type: none"> <li>Development of a Diversity Policy</li> </ul>                                            | <ul style="list-style-type: none"> <li>Establish measureable targets and objectives for workforce diversity</li> <li>Identify opportunities to collaborate with customers on diversity initiatives</li> </ul>                                                                                                                                                                                                                               |
| Community         | Community Participation  | <ul style="list-style-type: none"> <li>Continued support of local community organisations and employee volunteering</li> </ul> | <ul style="list-style-type: none"> <li>Establish a global approach to community participation</li> </ul>                                                                                                                                                                                                                                                                                                                                    |
| Environment       | Environmental Management | <ul style="list-style-type: none"> <li>No reportable environmental incidents</li> </ul>                                        | <ul style="list-style-type: none"> <li>No reportable environmental incidents</li> <li>Work with our customers to meet their environmental data collection needs</li> </ul>                                                                                                                                                                                                                                                                  |
|                   | Carbon and Energy        | <ul style="list-style-type: none"> <li>Established a baseline carbon footprint for the business</li> </ul>                     | <ul style="list-style-type: none"> <li>Improve our carbon and energy data collection processes</li> <li>Identify opportunities to collaborate with our customers on equipment and fuel efficiency projects</li> </ul>                                                                                                                                                                                                                       |

## **PEOPLE**

### **SAFETY**

Our number one priority across Emeco is safety. We have an established Health and Safety Policy which is publically available in the Investor Centre area of our website ([www.emecogroup.com](http://www.emecogroup.com)).

This Policy helps us to communicate performance expectations to employees, contractors and customers. This Policy is further supported by our company-wide Occupational Health and Safety system and monthly performance reporting to the executive leadership team and the Emeco Board.

Over the past few years the entire business has lifted its focus on improving our safety performance. We are pleased to report that this has translated into measurable reductions in our Lost Time Injury Frequency Rate ("LTIFR") and we are proud of the commitment made by all Emeco employees towards this effort.

We remain committed to maintaining our focus on safety and continually finding ways to progress our safety performance. In the past year we have implemented the following safety-related improvements:

- Enhanced the level of detail relating to safety performance that is regularly reported to the Emeco executive leadership team and Board of Directors
- Beyond existing site safety plans we conducted analysis of incidents within the Australian business and implemented state-based safety improvement plans
- Developed a Training Matrix to support the implementation of a more coordinated and consistent approach to supervisor and employee safety skills training
- Broadened toolbox talk discussions to include topics such as isolation and hazards, incidents, tagging, safe driving and general health

Over the coming year we will continue to work with employees to improve safe work practices across all Emeco operations and collaborate with our customers to assist them in achieving their safety goals and objectives.

A key focus for FY12 will be the implementation of a new Contractor Safety Management System ("CSMS"). We believe this new CSMS will help ensure that Emeco's entire workforce is focused on improving safety performance in alignment with our global commitment to safety and our company values.

#### ***Case Study: Recognising Great Safety Efforts***

For the second year in a row Emeco's Indonesian business (PT Prima Traktor IndoNusa) of nearly 300 people has been recognised by the Indonesian Government during the national K3 Safety Awareness Week programme for being a Zero Accident (Lost Time Injury free) operation.

This is a great achievement given the challenging working conditions our Indonesian operations are faced with on a daily basis and we believe that this award recognises the entire team's commitment to delivering a safe working environment for Emeco people and those we work with.

### **EMPLOYEE ENGAGEMENT**

At Emeco, we are committed to providing workplaces where Emeco people are empowered to achieve and succeed.

In Australia, our workforce of employees and contractors measures over 570 people. More than 360 people are working across our Indonesian and Canadian operations. It is central to Emeco's future success that all Emeco people understand the goals of the business (our vision and mission) and how as individuals and teams, Emeco people can contribute to the achievement of those goals.

Following an internal culture survey in October 2010, the executive leadership team reviewed the feedback provided by employees and developed a strategy for Emeco people, along with a clear vision, mission and set of values.

Empower is the overarching name we now use to refer to our people strategy and the work we carry out as we continually strive to be a better business. Empower also incorporates our employee engagement activities.

Empower was introduced across our Australian and Canadian operations in the second half of FY11 and was launched in Indonesia in August 2011.

Over the 9 months to 30 June 2011, the following initial improvement activities have been implemented as we work to build a more solid foundation of human resource systems and processes to support Emeco people:

- Employee culture survey to gain insight into engagement levels and feedback on areas for improvement.
- Development of a strategy for Emeco people ("Empower"). Initial improvement projects have included;
  - job descriptions for all roles
  - improved, consistent approach to Performance Management reviews and planning
  - review of current Training & Development approaches to establish a more coordinated and accessible approach for employees.
- Establishment of a global Human Resources Steering Committee to develop and drive human resource system and process improvements for Emeco people as part of Empower.
- Two CEO and Leadership Team roadshow presentations to launch and update all employees in Australia and Canada on Empower progress and to re-enforce the new Vision, Mission and Values.
- Monthly strategy and Empower updates in *MD News*, Keith Gordon's regular communication to all employees.

In August 2011 we sought further formal feedback from Emeco employees through a second culture survey. This feedback will be reviewed in light of our overarching business and people strategies. It will then be incorporated in to our ongoing communication and engagement plans for Empower.

## **DIVERSITY**

Diversity in our workforce is a key consideration for both Emeco and our customers. During the year we developed our Diversity Policy.

To date, we have already committed to establishing a group-wide diversity strategy and measureable targets for workforce diversity in FY12 and to work together with our customers to identify and implement diversity initiatives for the future. Our Diversity Policy is available for viewing in the Investor Centre area of our website ([www.emecogroup.com](http://www.emecogroup.com)) under Corporate Governance.

## **COMMUNITY**

### **COMMUNITY PARTICIPATION**

Emeco is committed to being a positive and active member of the communities in which it operates. As a business, we provide financial support and in-kind donations to local community organisations each year. We are also committed to supporting employees who personally contribute to localised community efforts.

During FY11 we contributed to the following organisations and community groups in Australia: Save the Children Fund, Ora Banda Day, Movember, St Barbara's Day and the Kmart Wishing Tree Appeal. We also contributed to the Queensland Premier's Flood Relief Appeal to assist the people and communities of Queensland following the tragic floods experienced in January 2011.

In Canada we contributed to: United Way, Crime Stoppers, MacDonald Island Sports and Wellness Centre, Stony Plain Skating Club, the Canadian Institute of Mining, Fort McMurray Curling Club and the City of Fort McMurray Canada Day celebrations.

In Indonesia we have focused on providing local students with practical work experience in our workshops and office facilities. Our employees also assist with teaching local students practical skills in schools. This approach to community participation not only assists with building skills in the next generation of the workforce, it also assists with future recruitment initiatives.

During FY12, we will be working to develop a global community participation plan that will provide a more coordinated approach and greater benefits to community groups in Australia, Indonesia and Canada. This plan will be developed for the long term and based on feedback from a range of localised stakeholder groups as well as Emeco employees and customers.

#### ***Case Study: Business and Community Working Together***

In Canada we have established a collaborative business partnership with the local indigenous First Nations run Fort McKay Group of Companies. Through this partnership we have committed to assist their business with the maintenance of their entire equipment fleet.

This partnership provides the Fort McKay Group of Companies with the benefits of increased equipment availability and reliability, cost control and in maintenance efficiency.

This coordinated approach will allow the Fort McKay Group to focus on providing quality earthmoving services, improving their reputation and growing their business.

## **ENVIRONMENT**

### **ENVIRONMENTAL MANAGEMENT**

We acknowledge that Emeco has a responsibility to minimise its impact on the environment. We have an established Group Environmental Policy which is publically available in the Investor Centre area of our website ([www.emecogroup.com](http://www.emecogroup.com)). This Policy helps us to communicate our performance expectations to our employees, contractors and customers.

Environmental management and compliance is an important consideration for our business and our customers. We collaborate with our customers to ensure that we meet the obligations of their onsite policies, management systems and procedures. At this point in time, our approach to environmental management is focused on oil use and disposal, waste disposal and water management.

Environmental incidents associated with our operations are tracked and reported through our online system and performance is reported to the executive leadership team and the Emeco Board on a monthly basis.

We are pleased to report that Emeco did not experience any reportable environmental incidents during the last financial year.

#### ***Case Study: The Good Oil***

Waste management practices at workshop facilities are a key focus for Emeco. Waste oil products collected as a result of equipment maintenance and servicing activities forms one of our largest waste streams.

All Emeco workshops have wash bays to collect oily water and tanks which temporarily collect disused oil.

To mitigate the impact of this waste oil on the environment, we engage the services of professional and experienced licensed liquid waste contractors to collect, treat and recycle the waste oil offsite. Effective management, collection and recycling processes are in place at all Emeco maintenance workshops.

As an example, Emeco's Rutherford maintenance facility collects and sends over 200,000L of waste oil offsite for recycling and reprocessing each year. A licensed contractor collects and reprocesses this waste at a local facility. The waste oil is reprocessed into a number of different products for local use, including power station boiler fuel and bitumen products. Some of this waste oil is also further refined into grade 1 base oil which is then re-sold locally and overseas as a wide range of commercially available oil based products.

## CARBON AND ENERGY

For the past 3 years, Emeco has captured a baseline carbon footprint for its global operations. Our carbon footprint is calculated in alignment with the international best practice Greenhouse Gas Protocol. We have publically reported this baseline information to the Carbon Disclosure Project (“CDP”). The CDP is the largest database of primary corporate climate change information in the world. Our CDP submission will be available at [www.cdproject.net](http://www.cdproject.net).

This work has identified that most of our emissions are associated with energy use in our buildings, fleet, air travel and waste disposal. The combustion of fuel during the use of our equipment was identified as a large source of greenhouse gas emissions. However, under the Australian Government’s National Greenhouse and Energy Reporting (“NGER”) Act, responsibility for the generation and reporting of these emissions lies with our customers as they are considered to be in operational control of the equipment once it is in use at their sites. Based on our measurements Emeco is currently operating well under the corporate thresholds set out by the Act.

While it is not our responsibility to include these emissions in our carbon footprint, Emeco is committed to helping our customers reduce their carbon and energy impacts. Over the coming year we will continue to work with our customers and explore equipment efficiency opportunities that will assist our customers and Emeco in achieving our shared sustainability goals.

During FY12 we will use learnings gained through the baseline assessment process to collect robust carbon and energy data and further analyse our own performance and processes to identify opportunities for improvement.



## **Directors' Report**

### **For the year ended 30 June 2011**

#### ***Directors***

The Directors of Emeco Holdings Limited (Emeco or the Company) present their report together with the financial reports of the consolidated entity, being Emeco and its controlled entities (the Emeco Group) for the financial year ended 30 June 2011 ("FY11").

#### ***Current Directors***

The current Directors of the Company are:

##### ***Alec Brennan, (Age 64), Chairman and Independent Non-Executive Director***

Alec was appointed an Independent, Non-Executive Director in August 2005 and has held the position of Chairman since 28 November 2006.

Alec was Chief Executive Officer of CSR until March 2007. Alec holds an MBA from City University, London and a BSc from the University of NSW. He is Chairman of PPI Corporation Pty Ltd, a Fellow of the Senate of Sydney University and Chair of its Finance Committee and its HR Committee and a member of the ASIC External Advisory Panel.

Alec is Chairman of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee.

##### ***Robert ("Bob") Bishop, (Age 66), Independent Non-Executive Director***

Bob was appointed as an Independent, Non-Executive Director on 22 June 2009. He holds a Master of Science Degree in Production Engineering from the University of Birmingham, UK, and is a Member of the Institute of Engineers Australia and a Fellow of the Australian Institute of Company Directors.

Bob is a former Managing Director of Joyce Corporation Ltd (1989 to 1994) and Dorsogna Ltd (1994 to 1997). Most recently Bob was the Chief Executive Officer of the global mining and tunnelling division of DYWIDAG Systems International GmbH (DSI), a position he held from 2003 to 2008. Bob has extensive international business experience having worked in the UK, South Africa, and Europe.

Bob is a member of the Audit and Risk Committee.

##### ***John Cahill, (Age 55), Independent Non-Executive Director***

John was appointed as an Independent, Non-Executive Director on 15 September 2008.

John is the former Chief Executive Officer of Alinta Infrastructure Holdings and Chief Financial Officer of Alinta Ltd and has over 25 years' experience working in the energy utility sector in treasury, finance, accounting and risk management. He is a Non-Executive Director and Deputy Chairman of Electricity Networks Corporation which trades as Western Power and chairs its Finance and Risk Committee and is a member of the People and Performance Committee. John is also a Non-Executive Director of Silver Chain Nursing Association Inc and the Silver Chain Foundation. John is a Graduate Member of the Australian Institute of Company Directors and a Fellow, Deputy President and Director of CPA Australia Ltd.

John is Chairman of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee.



## **Directors' report contd.**

### **For the year ended 30 June 2011**

#### ***Keith Gordon, (Age 47), Managing Director and Chief Executive Officer***

Keith was appointed as Managing Director of Emeco Holdings Limited on 1 December 2009.

Keith has had an extensive career in the industrials sector with significant senior leadership experience. He joined Emeco with more than 10 years' experience with Wesfarmers Limited, where he held a number of very senior roles.

He has a strong record of achieving value creating growth through innovation and disciplined strategies. Keith holds a Bachelor of Agricultural Science with Honours and a Master of Business Administration from the University of Western Australia.

#### ***Peter Johnston, (Age 60), Independent Non-Executive Director***

Peter was appointed as an Independent, Non-Executive Director on 1 September 2006.

Peter is currently Managing Director and Chief Executive Officer of Minara Resources Limited, a position he has occupied since December 2001. He previously held senior executive positions with WMC and Alcoa.

Peter is a graduate from the University of Western Australia. He is a Fellow of the Australian Institute of Mining and Metallurgy and a Fellow of the Australian Institute of Company Directors. He is a past Chairman of the Nickel Institute and is Chairman of the Minerals Council of Australia. Peter is on the Executive Council of The Chamber of Minerals and Energy WA and a Director of the Australian Mines and Metals Association. He is a non-executive director of Silver Lake Resources Limited.

Peter is a member of the Remuneration and Nomination Committee.

#### ***Peter Richards, (Age 52), Independent Non- Executive Director***

Peter was appointed as an Independent, Non-Executive Director on 14 June 2010.

Peter is a former Chief Executive Officer of Dyno Nobel Limited in Australia, and held this position from December 2005 until June 2008. Prior to this, Peter had held a number of senior executive positions at Dyno Nobel North America and Dyno Nobel Asia Pacific Limited. Peter was at Wesfarmers Limited from 1990 until 1995.

Currently, Peter is a non-executive director of Bradken Limited (ASX code: BKN), Norfolk Group Limited (ASX code: NFK), NSL Consolidated Limited (ASX code: NSL) and Sedgman Limited (ASX code: SDM) and he is the Chairman of Kangaroo Resources Limited (ASX code: KRL) and Minbos Resources Limited.

Peter holds a Bachelor of Commerce from the University of Western Australia, majoring in accounting and economics.

Peter is a member of the Audit and Risk Committee.

## ***Company Secretary***

Michael Kirkpatrick was appointed Company Secretary in April 2005. Michael has previously worked as legal counsel and company secretary of a large industry superannuation fund, and as a corporate lawyer with several national law firms. Michael holds bachelor degrees in arts and economics from the University of Western Australia and a Law Degree with merit honours from Murdoch University.

**Directors' report contd.**  
**For the year ended 30 June 2011**

***Directors' Meetings***

The number of meetings of the Directors held during the year and the number of meetings attended by each of the Directors of the Board and Committees are outlined in the table below.

| Director       | Board Meetings |    | Audit & Risk Committee |     | Remuneration<br>& Nomination Committee |     |
|----------------|----------------|----|------------------------|-----|----------------------------------------|-----|
|                | A              | B  | A                      | B   | A                                      | B   |
| Alec Brennan   | 13             | 13 | 5                      | 5   | 2                                      | 2   |
| John Cahill    | 13             | 13 | 5                      | 5   | 2                                      | 2   |
| Keith Gordon   | 13             | 13 | 5**                    | 5** | 2**                                    | 2** |
| Peter Johnston | 13             | 13 | 4**                    | 5** | 2                                      | 2   |
| Peter Richards | 12             | 13 | 5                      | 5   | 1**                                    | 2** |
| Robert Bishop  | 13             | 13 | 5                      | 5   | 1**                                    | 2** |

**A** – Number of meetings attended

**B** – Number of meetings held during the time the Director held office during the year

\*\* Not a member of this Committee



## **Directors' report contd.**

### **For the year ended 30 June 2011**

#### ***Corporate Governance Statement***

Under ASX Listing Rule 4.10.3, the Company is required to include in its annual report a statement disclosing the extent to which it has followed the principles of good corporate governance (**ASX Principles**) and associated recommendations set by the ASX Corporate Governance Council (**ASX Recommendations**).

This corporate governance statement reports on the Group's current corporate governance practices and policies by reference to the revised ASX Principles and ASX Recommendations adopted by the ASX Corporate Governance Council, including those which took effect in their revised form from 1 January 2008, and the second edition of Amendments issued in June 2010 (**2010 Amendments**).

Emeco is pleased to report that it has followed each of the ASX Recommendations as set out in the Corporate Governance Statement below.

#### **Principle 1      Lay solid foundations for management and oversight**

##### **Roles and responsibilities of the Board and management**

###### *Board Charter*

The Board has adopted a Charter that details its functions and responsibilities.

The Charter sets out the responsibilities of:

- the Board;
- individual Directors; and
- the Chairman.

Under the Charter the Board is accountable to the shareholders for the overall performance of the Company and the management of its affairs. Key responsibilities of the Board include:

- developing, providing input into, and final approval of corporate strategy;
- evaluating, approving and monitoring the strategic and financial plans and performance objectives of the Company;
- determining dividend policy and the amount and timing of all dividends;
- evaluating, approving and monitoring major capital expenditure, capital management and all major acquisitions, divestitures and other corporate transactions, including the issue of securities;
- reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- evaluating and monitoring annual budgets and business plans;
- ensuring appropriate resources are available to senior executives;
- approving all accounting policies, financial reports and external communications by the Group;
- appointing, re-appointing or removing the Company's external auditors (on recommendation from the Audit and Risk Committee); and
- appointing, monitoring and managing the performance and remuneration of Executive Directors.

## **Directors' report contd.**

### **For the year ended 30 June 2011**

The Charter sets a minimum number of Board meetings and provides for the establishment of the Audit and Risk Committee and the Remuneration and Nomination Committee. The Charter also sets minimum standards of ethical conduct of the Directors, which are further elaborated on in the Company's Code of Conduct, and specifies the terms on which Directors are able to obtain independent professional advice at the Company's expense.

A copy of the Board Charter and a copy of the Company's Code of Conduct are available on the Emeco website.

#### *Delegated Financial Authority*

Under the terms of the Board Charter, the Chief Executive Officer and Managing Director is responsible to the Board for the day-to-day management of the Group. As noted in the Board Charter, the Board has formally adopted a structured Delegated Financial Authority ("DFA") which outlines the specific financial authority limits delegated to the Chief Executive Officer and Managing Director. The Board approves and monitors this delegation of financial authority.

The DFA ensures that contract commitments and expenditure is limited to:

- contractual commitments in the ordinary course of business;
- operational expenditure (those costs incurred in the day to day running of the business); and
- capital expenditure (the purchase of assets for the purpose of deriving income).

The DFA sets levels of permitted contract and expenditure commitment for employees across the Group. Authority limits have been set as a risk management tool to ensure adequate controls are in place when committing the Group to a contract or incurring costs.

#### **Evaluating the performance of senior executives**

The performance of the Managing Director is regularly monitored by the Non-Executive Directors.

Formal reviews of the performance of each senior executive within the Emeco Group are conducted by the Managing Director in August/September each year. These performance reviews provide the Managing Director and each senior executive with the opportunity not only to review the executive's performance against a range of financial and operational benchmarks but also to review and assess the senior executive's personal and professional development objectives. A review of the performance of each senior executive was undertaken during FY11.

The Group has formal induction procedures in place to introduce new senior executives to the Group and gain an understanding of the Group's financial position, strategies, operations and risk management and other policies and responsibilities.

#### **Principle 2      Structure the Board to add value**

##### **Skills, experience and expertise of the Directors**

The Board is currently comprised of six Directors, with five Non-Executive Directors, including the Chairman, and one Executive Director. The Directors consider that collectively they have the relevant skills, experience and expertise to fulfil their obligations to the Company, its shareholders and other stakeholders.

All Directors are expected to maintain the skills required to discharge their duties to the Company. Directors are provided, on an "as needed" basis, with papers, presentations and briefings on Group businesses and on matters which may affect the operations of the Group.

The Directors and a brief description of their skills and experience are set out at pages 18 to 19 of this report.

## Directors' report contd.

### For the year ended 30 June 2011

#### Status of the Directors

The table below sets out details of the status of each of the current Directors as Independent or Non-Executive Directors, their date of appointment and whether they are seeking election or re-election at the 2011 annual general meeting of the Company.

**Table 2 – Status of the Directors**

| Director          | Date of appointment | Independent | Non-executive | Seeking election or re-election at 2011 AGM |
|-------------------|---------------------|-------------|---------------|---------------------------------------------|
| Mr Alec Brennan   | 16 August 2005      | Yes         | Yes           | Yes                                         |
| Mr Keith Gordon   | 1 December 2009     | No          | No            | No                                          |
| Mr Peter Johnston | 1 September 2006    | Yes         | Yes           | No                                          |
| Mr John Cahill    | 15 September 2008   | Yes         | Yes           | Yes                                         |
| Mr Robert Bishop  | 22 June 2009        | Yes         | Yes           | No                                          |
| Mr Peter Richards | 14 June 2010        | Yes         | Yes           | No                                          |

Mr Brennan, Mr Johnston, Mr Cahill, Mr Bishop and Mr Richards are Independent Directors. Directors are expected to bring independent views and judgement to the Board's deliberations. All of them satisfy the criteria for independence set out in the ASX Principles and ASX Recommendations. In considering whether a Director is independent, the Board has had regard to the relationships affecting their independent status and other facts, information and circumstances that the Board considers to be relevant.

The Board assesses the independence of new Directors upon appointment and reviews their independence, and the other Directors annually and as appropriate. The test of whether a relationship is material is based on the nature of the relationship and the circumstances of the Director. Materiality is considered from the perspective of the Company, the Director, and the person or entity with which the Director has a relationship.

The Company therefore complies with ASX Recommendation 2.1.

The one Director who is not considered to be independent, due to his involvement in the management and operations of the Group, is Mr Keith Gordon, the Chief Executive Officer and Managing Director.

The Chairman of the Board is Mr Brennan, an Independent Director, and the Company therefore complies with ASX Recommendation 2.2.

## **Directors' report contd.**

### **For the year ended 30 June 2011**

#### **Directors' retirement and re-election**

Under the terms of the Company's constitution, a Director other than the Managing Director must retire from office or seek re-election by no later than the third annual general meeting after their appointment or three years, whichever is the longer.

At least one Director must retire from office at each annual general meeting, unless determined otherwise by a resolution of the Company's shareholders. Mr Brennan and Mr Cahill will seek re-election at the 2011 annual general meeting under this provision.

Under the Company's constitution the Directors have the power to appoint Directors to fill a vacancy or as an addition to the Board. Any Director, except a Managing Director appointed in this way must retire from office at, and is eligible for re-election at, the next annual general meeting following his or her appointment.

The Board has established criteria for the appointment of Non-Executive Directors of the Company. These criteria provide that an incoming Director must:

- have no actual or potential conflicts of interest at the time of appointment;
- have no prior adverse history. A potential candidate's bankruptcy, a conviction for an offence of dishonesty or any other serious criminal conviction, ASIC or APRA disqualification etc would disqualify a person from further consideration as a candidate;
- have a deserved reputation for honesty, integrity and competence;
- have extensive experience at a senior executive level in a field relevant to the Group's operations and preferably with a listed company;
- have high level strategic, financial and commercial capability;
- be available and willing to devote the time required to meetings and Company business and have a real commitment to the Group and its success;
- be able to work harmoniously with fellow Directors and Management;
- have skills, experience and knowledge which complement the skills, experience and knowledge of incumbent Directors.

Candidates recommended for appointment as new Non-Executive Directors are considered by the Board as a whole. If it is necessary to appoint a new Director to fill a vacancy on the Board or to complement the existing Board, a wide potential base of possible candidates is considered.

#### **Procedures for seeking information and taking independent and professional advice**

Under the Board Charter, a Director is entitled to seek professional advice at the Company's expense on any matter connected with the discharge of their duties in accordance with the procedure set out in the Charter, a copy of which is available on the Emeco website.

In addition, all Directors have unrestricted access to employees of the Group and, subject to law, access to all records of the Company and information held by Group employees and external advisors. The Board receives regular detailed financial and operational reports from senior management to enable it to carry out its duties.

The General Counsel is Michael Kirkpatrick. Each of the Directors has access to the General Counsel as and when required.

## **Directors' report contd.**

### **For the year ended 30 June 2011**

#### **Remuneration and Nomination Committee**

The Company has established a Remuneration and Nomination Committee, the responsibilities of which include:

- critically reviewing the performance and effectiveness of the Board and its individual members;
- periodically assessing the skills required to discharge the Board's duties, having regard to the strategic direction of the Company; and
- reviewing the membership and performance of other Board Committees and making recommendations to the Board.

Members of the Remuneration and Nomination Committee are Mr Brennan (Chair), Mr Cahill, and Mr Johnston. The Charter of the Remuneration and Nomination Committee is available on the Emeco website.

#### **Process for evaluating the Board, its Committees and Directors**

A review of the performance of the Board was completed in March 2011 by the Chairman with the assistance of the Remuneration and Nomination Committee. The review was undertaken in accordance with the Charter of the Remuneration and Nomination Committee using a comprehensive questionnaire, the scope of which covered the performance of the Board, its Committees, the Chairman and individual Directors.

Directors' questionnaire responses (other than in relation to the Chairman) were collated and analysed by the Chairman and, where appropriate, discussed with the Board. An analysis of the questionnaire results was presented to the Board by the Chairman. In relation to the Chairman, Directors' questionnaire responses were collated and analysed by the Managing Director and discussed with the Board.

#### **Principle 3      Promote ethical and responsible decision-making**

The Company considers that confidence in its integrity can only be achieved if its employees and officers conduct themselves ethically in all of their commercial dealings on the Company's behalf. The Company has therefore recognised that it should actively promote ethical conduct amongst its employees, officers and contractors.

The Company has adopted a Code of Conduct, a Share Trading Policy and in FY11, a Diversity Policy. The Code of Conduct, Share Trading Policy and Diversity Policy apply to all Directors, Officers, Employees, Consultants and Contractors of the Company and its subsidiaries.

#### **The Code of Conduct**

The Code of Conduct was updated in FY11 to reflect the 2010 Amendments.

The objectives of the Code of Conduct are to ensure that:

- high standards of corporate and individual behaviour are observed by all employees in the context of their employment with the Company or a subsidiary;
- employees are aware of their responsibilities under their contract of employment and always act in an ethical and professional manner; and
- all persons dealing with Emeco, whether it be employees, shareholders, suppliers, clients or competitors, can be guided by the stated values and practices of Emeco.

## **Directors' report contd.**

### **For the year ended 30 June 2011**

Under the Code of Conduct, employees of the Emeco Group must, amongst other things:

- act honestly and in good faith at all times and in a manner which is in the best interests of the Company as a whole;
- conduct their personal activities in a manner that is lawful and avoids conflicts of interest between the employee's personal interests and those of the Company;
- always act in a manner that is in compliance with the laws and regulations of the country in which they work;
- report any actual or potential breaches of the law, the Code of Conduct or the Company's other policies to the Company Secretary; and
- not permit or condone the making of payments, gifts, favours, bribes, facilitation payments or kick-backs in the expectation of preferred treatment for themselves or the Company.

The Company actively promotes and encourages ethical behaviour and protection for those who report violations of the Code or other unlawful or unethical conduct in good faith. The Company ensures that employees are not disadvantaged in any way for reporting violations of the Code or other unlawful or unethical conduct and that matters are dealt with promptly and fairly.

Directors are required to avoid conflicts of interest and immediately inform their fellow Directors should a conflict of interest arise. Directors are also required to advise the Company of any relevant interests that may result in a conflict.

The Board has adopted the use of formal standing notices in which Directors disclose any material personal interests and the relationship of these interests to the affairs of the Company. A Director is required to notify the Company of any new material personal interests or if there is any change in the nature or extent of a previously disclosed interest.

Where a matter in which a Director has a material personal interest is being considered by the Board, that Director must not be present when the matter is being considered or vote on the matter, unless all of the other Directors have passed a resolution to enable that Director to do so or the matter comes within a category of exception under the *Corporations Act 2001*.

The Company will only use an employee's personal information for the purposes for which it has been disclosed (unless it is necessary to protect health and safety, or as required by law).

The Company's approach to community investments (for example sponsorships and donations) is approved and managed at a corporate level with input from the business. It seeks to conduct its operations in a sustainable manner, in consideration of social, environmental and economic impacts.

Further, the Company is committed to maintaining mutually beneficial sustainable relationships with the indigenous communities around which it may operate.

#### **The Share Trading Policy**

The principal objective of the Share Trading Policy is to raise awareness of, and minimise any potential for breach of, the prohibitions on insider trading contained in the *Corporations Act 2001*. The policy is also intended to minimise the possibility that misunderstandings or suspicions arise from employees and officers trading in the Company's shares, by limiting trading to fixed periods commencing after the release of half and full year results and after the annual general meeting.

The Company has appropriate compliance standards and procedures in place to ensure the policy is properly adhered to. Employees are advised of the opening and closing dates of each trading period after the release of half and full year results, and after the annual general meeting. Employees are reminded of the relevant dates for these trading periods, and a copy of the Share Trading Policy accompanies these reminder notifications.

Copies of the Code of Conduct and the Share Trading Policy are available on the Emeco website.

## **Directors' report contd.**

### **For the year ended 30 June 2011**

#### **Diversity Policy**

The Company will commence formal reporting on diversity in its Annual Report in FY12. For FY11, the Company considered it appropriate to establish a Diversity Policy to support a corporate culture of workplace diversity, and to work towards establishing a framework for diversity awareness and reporting. A copy of the Diversity Policy is on the Emeco website.

The Remuneration and Nomination Committee will be responsible for assessing and reporting to the Board on the Company's progress towards achieving its measurable diversity objectives on an annual basis.

#### **Principle 4      Safeguard integrity of financial reporting**

The Board has established an Audit and Risk Committee to support and advise the Board in fulfilling its responsibilities to shareholders, employees and other stakeholders of the Company by:

- assisting the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control relating to all matters affecting the Company's financial performance, the audit process, and the Company's process for monitoring compliance with laws and regulations and the Code of Conduct; and
- implementing and supervising the Company's risk management framework.

Members of the Audit and Risk Committee are Mr Cahill (Chairman), Mr Bishop, Mr Brennan and Mr Richards. The Managing Director, Chief Financial Officer, Company Secretary and any other persons considered appropriate may attend the meetings of the Audit and Risk Committee by invitation. The Committee also meets from time to time with the external auditor in the absence of Management.

The Audit and Risk Committee Charter sets out the role and responsibilities of the Committee and is available on the Emeco website.

Details regarding membership of the Committee are set out above. During FY11, the Committee comprised of four Independent Non-Executive Directors, all of whom have financial expertise.

Details of the qualifications of the members of the Committee are set out at pages 18 to 19 of this report. During FY11, the Committee met five times. All current members of the Committee were present for each of these meetings.

#### **Independence of the external auditor**

The Company's external auditor is KPMG. The effectiveness, performance and independence of the external auditor is reviewed by the Audit and Risk Committee. If it becomes necessary to replace the external auditor for performance or independence reasons, the Audit and Risk Committee will formalise a procedure and policy for the selection and appointment of a new auditor.

#### *Independence declaration*

The *Corporations Act 2001* requires the external auditor to make an annual independence declaration, addressed to the Board, declaring that the auditor has maintained its independence in accordance with the *Corporations Act 2001* and the rules of the professional accounting bodies. KPMG has provided an independence declaration to the Board for FY11. This independence declaration forms part of the Directors' report and is provided on page 52 of this annual report.

## **Directors' report contd.**

### **For the year ended 30 June 2011**

#### *Non Audit Services*

During the year, KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of these non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company;
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditors own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing the risks and rewards.

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is included in the Director's report (on page 52 of this annual report).

Details of fees paid to the Company's auditors for non-audit services are found in Note 8 of the financial report.

#### **Rotation of lead external audit partner**

Mr R Gambitta is the lead audit partner for KPMG in relation to the audit of the Company. Mr Gambitta was first appointed as the Partner responsible for Emeco Holdings Limited for the 30 June 2009 year end audit.

#### **Attendance of external auditors at the annual general meeting**

The lead audit partner of KPMG attends and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report at the Company's annual general meeting.

#### **Principle 5      Make timely and balanced disclosure**

The Company is committed to complying with its continuous disclosure obligations under the ASX Listing Rules and disclosing to investors and other stakeholders all material information about the Company in a timely and responsive manner.

The Company has adopted a Continuous Disclosure Policy which is available on the Emeco website.

The Continuous Disclosure Policy specifies the processes by which the Company ensures compliance with its continuous disclosure obligations. The policy sets out the internal notification and decision making procedures in relation to these obligations, and the roles and responsibilities of the Company's officers and employees in the context of these obligations. It emphasises a pro-active approach to continuous disclosure and requires the Company to comply with the spirit as well as the letter of the ASX continuous disclosure requirements. The Company Secretary has responsibility for overseeing and coordinating the disclosure of information by the Company to the ASX and for administering the policy.

The policy specifies the Company representatives who are authorised to speak publicly on behalf of the Company and procedures for dealing with analysts. It also sets out how the Company deals with market rumour and speculation. Compliance with the policy is reviewed and monitored by the Audit and Risk Committee, and also by the Board.

## **Directors' report contd.**

### **For the year ended 30 June 2011**

#### **Principle 6      Respect the rights of shareholders**

The Company acknowledges the importance of effective communication with its shareholders and encourages their effective participation at general meetings, which are a major forum for shareholders to ask questions about the performance of the Group. In June 2011, the Company adopted a formal communications policy which describes the processes and systems implemented by the Company to facilitate communication between the Company, its shareholders and investors. This is on the Company's website.

All public announcements are also posted on the Company's website after they have been released to the ASX. The Company also places the full text of notices of meetings and explanatory material on its website, as well as copies of its annual report and the Chairman's address at the annual general meeting.

The Company offers a number of options to shareholders in relation to electronic communications. Shareholders can elect to receive notification by email when payment advices, annual reports, notices of meetings and proxy forms are available online. They can also elect to receive email notification of important announcements.

Shareholders are given an opportunity to ask questions of the Directors at the Company's general meetings. The Company provides its auditor with notice of general meetings of the Company, as is required by section 249K of the *Corporations Act 2001*. The Company also requests its auditor to attend its annual general meetings and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

#### **Principle 7      Recognise and manage risk**

The Board believes that risk management is fundamental to sound management and that oversight of such matters is an important responsibility of the Board. The Board, with assistance from the Audit and Risk Committee, is responsible for ensuring there are adequate processes and policies in place to identify, assess and mitigate risk.

Emeco has adopted a Risk Management Policy. It has also implemented a formal Enterprise Risk Management programme, and has adopted measures to ensure that risk management concepts and awareness are embedded into the culture of the organisation. This programme includes the involvement of senior executives and senior operational management. The key elements of Emeco's Risk Management programme are:

- classification of risk into strategic, operational, financial and compliance risks;
- the quantification and ranking of risk consequences and likelihood;
- the identification of strategic risk issues;
- the identification of operational risk issues through formalised regional-based risk workshops;
- the development of a Company database for communicating and updating activity and progress on risk matters and maintaining risk registers;
- the identification, enhancement and development of key internal controls to address risk issues including risk treatment plans and assigning accountabilities for identified risks to senior Emeco employees; and
- a comprehensive insurance programme.

The Audit and Risk Committee is responsible for reviewing the effectiveness of the overall risk management framework. It is also required to review the Risk Management Policy on an annual basis.

## Directors' report contd.

### For the year ended 30 June 2011

#### Internal assurance and the establishment of an internal audit function

In May 2010, the Board approved the appointment of Ernst & Young as a supplier of internal audit services for a period of three years. The Company considered there was a clear link between the internal audit function and delivering business improvement outcomes (noting that the focus of assurance also remains central to this function).

Management will formally review the performance of the internal auditors on an annual basis and report findings to the Audit and Risk Committee.

The overall internal assurance process is overseen by the Group's Risk and Corporate Assurance Manager who manages the process, and provides assurance to the Audit and Risk Committee and the Board, through the Chief Financial Officer, regarding the effectiveness of the Emeco Group's risk management, governance and control frameworks.

For FY11, the Board has received an assurance from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with section 295A of the *Corporations Act 2001* 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. Management has also reported to the Board that the Group's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Risk Management Policy is available on the Emeco website.

#### **Principle 8      Remunerate fairly and responsibly**

The Emeco Group remuneration policy is substantially reflected in the objectives of the Remuneration and Nomination Committee. The Committee's remuneration objectives are to endeavour to ensure that:

- the Directors and senior management of the Group are remunerated fairly and appropriately;
- the remuneration policies and outcomes strike an appropriate balance between the interests of the Company's shareholders, and rewarding and motivating the Group's executives and employees in order to secure the long term benefits of their energy and loyalty; and
- the human resources policies and practices are consistent with and complementary to the strategic direction and human resources objectives of the Company as determined by the Board.

Under its Charter, the Remuneration and Nomination Committee is required to review and make recommendations to the Board about:

- the general remuneration strategy for the Group so that it motivates the Group's executives and employees to pursue the long term growth and success of the Group and establishes a fair and transparent relationship between individual performance and remuneration;
- the terms of remuneration for the Executive Directors and other senior management of the Group from time to time including the criteria for assessing performance;
- diversity policy compliance and reporting;
- the outcomes of remuneration reviews for executives collectively, and the individual reviews for the Executive Directors, and other senior management of the Group;
- remuneration reviews for Executive and Non-Executive Directors;
- changes in remuneration policy and practices, including superannuation and other benefits;
- employee equity plans and allocations under those plans; and
- the disclosure of remuneration requirements in the Company's public materials including ASX filings and the annual report.

## **Directors' report contd.**

### **For the year ended 30 June 2011**

Details regarding membership of the Remuneration and Nomination Committee are set out under Principle 2. During FY11, the Committee met two times. All members of the Committee were present for the meetings.

Emeco clearly distinguishes the structure of Non-Executive Directors' remuneration from that of Executive Directors and Senior Executives. Non-Executive Directors are remunerated by way of fees in the form of cash benefits and superannuation contributions. They do not receive options or bonus payments; nor are they provided with retirement benefits other than superannuation.

A remuneration report detailing the information required by section 300A of the *Corporations Act 2001* in relation to FY11 is included in the Directors' report on pages 33 to 50.

### ***Nature of operations and principal activities***

The principal activities during the financial year of the entities within the Group were the renting, maintaining and selling of heavy earthmoving equipment to customers in the mining industries.

As set out in this report, the nature of the Group's operations and principal activities, have been consistent throughout the financial year.

### ***Operating and financial review***

A review of Group operations, and the results of those operations for FY11, is set out on pages 10 to 11 and in the accompanying financial statements.

### ***Dividends paid or to be paid***

In relation to the 2009/2010 financial year the Directors declared a fully franked final dividend of 2.0 cents per share which was paid on 30 September 2010.

During the 2010/2011 financial year the Directors declared a fully franked interim dividend of 2.0 cents per share and a special fully franked dividend of 5.0 cents per share (total dividend paid of 7.0 cents per share) which was paid on 31 March 2011.

Since the end of the 2010/2011 financial year, the Directors have declared a fully franked final dividend of 3.0 cents per share to be paid on 30 September 2011.

### ***Significant changes in state of affairs***

During the financial year under review there were no significant changes in the Group's state of affairs other than those disclosed in the operating and financial review section or in the financial statements and the notes thereto.

### ***Significant events after balance date***

During the financial year under review there were no significant events after the balance date other than the declaration of dividend noted above.

### ***Likely developments and expected results***

Likely developments in, and expected results of, the operations of the Emeco Group are referred to at pages 5 to 11. This report omits information on likely developments in the Emeco Group in future financial years and the expected results of those operations the disclosure of which, in the opinion of the Directors, would be likely to result in unreasonable prejudice to the Emeco Group.

**Directors' report contd.**  
**For the year ended 30 June 2011**

***Directors interest in shares of the Company***

The relevant interests of each Director in the shares, debentures, and rights or options over such shares or debentures issued by the companies within the Group and other related bodies corporate, as notified by the Directors to the ASX in accordance with section 205G(1) of the *Corporations Act 2001*, at the date of this report are as follows:

**Table 3 – Directors' Interests**

|                | <b>Ordinary<br/>shares</b> | <b>Options over<br/>ordinary shares</b> |
|----------------|----------------------------|-----------------------------------------|
| Alec Brennan   | 1,581,700                  | -                                       |
| Peter Johnston | 100,000                    | -                                       |
| John Cahill    | 120,000                    | -                                       |
| Robert Bishop  | 300,000                    | -                                       |
| Peter Richards | 40,000                     | -                                       |
| Keith Gordon   | 1,833,929                  | -                                       |



## **Directors' report contd.**

### **For the year ended 30 June 2011**

#### ***Remuneration report (audited)***

This report summarises the Emeco Group's remuneration practices and outcomes in respect of its key management personnel for the 2011 financial year. Key management personnel comprise the directors of the Company and the Emeco Group's senior executives, including the five most highly remunerated Company and group executives.

#### ***Principles of remuneration***

The Group remuneration policy is substantially reflected in the objectives of the Board's Remuneration and Nomination Committee. The Committee's objectives are to endeavour to ensure that:

- the directors of the Company and senior management of the Group are remunerated fairly and appropriately;
- the remuneration policies and outcomes of the Company strike an appropriate balance between the interests of the Company's shareholders, and rewarding and motivating the Group's executives and employees in order to secure the long term benefits of their energy and loyalty; and
- the human resources policies and practices are consistent with and complementary to the strategic direction and human resources objectives of the Company as determined by the Board.

#### ***Elements of remuneration***

The remuneration structure for Emeco's executives consists of fixed and variable components.

##### **Fixed remuneration**

Fixed remuneration comprises base salary, employer superannuation contributions, other allowances and non-cash benefits such as the provision of motor vehicles and, in the case of executives based outside Australia, housing.

Each executive's fixed remuneration is reviewed and benchmarked against appropriate market comparisons annually in September. The executive's responsibilities, experience, qualifications, performance and geographic location are also taken into account.

Emeco's broad objective is to set fixed remuneration at levels which ensure the Company is able to attract and retain the best available key executives who are appropriately qualified and experienced, and capable of:

- fulfilling their respective roles within the Group;
- achieving the Group's strategic objectives; and
- maximising Group earnings and the returns to shareholders.

##### **Variable remuneration**

Variable remuneration is performance linked remuneration which consists of short term incentives ("STI") and long term incentives ("LTI").

##### **STI remuneration**

In FY11, the Company made grants to its key management personnel under two STI plans, a strategy incentive plan and the FY11 short term incentive plan.

##### **Strategy Incentive Plan**

Following the appointment of the Managing Director on 1 December 2009 and the commencement of a long term strategic planning process for the Emeco Group, an incentive plan was established for Emeco's key management personnel in respect of the development, refinement and execution of Emeco's long term strategy (Strategy Incentive Plan). The maximum amount payable in cash to each participant in the Strategy Incentive Plan was, in the case of the Managing Director 15% of FY10 fixed annual remuneration, and in the case of all other executives, 15% of FY10 base annual salary.

## Directors' report contd.

### For the year ended 30 June 2011

In October 2010, the directors reviewed progress with the development and implementation of Emeco's strategy over the period 1 January 2010 to 30 September 2010 and determined the entitlement of each participant to a Strategy Incentive Plan payment as at 30 September 2010 in light of recommendations from the Managing Director and based on progress with the implementation of a range of strategic initiatives flowing from the overall strategy. Details of the strategy incentive plan cash payments for each key executive, which are classified as STI cash bonuses in this report, are set out below.

It is not intended to establish a separate strategy incentive plan in future financial years.

**Table 4 – Key executive strategic incentive plan payments (1)**

|                        | Nature of Strategy Incentive Plan compensation | Approval date   | Minimum possible value of Strategy Incentive Plan payment | Maximum possible value of Strategy Incentive Plan payment | Amount of Strategy Incentive Plan payment awarded (2) \$ | % of bonus awarded (3) | % of bonus forfeited |
|------------------------|------------------------------------------------|-----------------|-----------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------------|------------------------|----------------------|
| Mr H Christie-Johnston | Cash                                           | 22 October 2010 | 0                                                         | 37,844                                                    | 20,183                                                   | 53                     | 47                   |
| Mr G Gadomsky [A]      | Cash                                           | 22 October 2010 | 0                                                         | 39,138                                                    | 12,936                                                   | 67                     | 33                   |
| Mr S Gobby             | Cash                                           | 22 October 2010 | 0                                                         | 44,725                                                    | 44,725                                                   | 100                    | 0                    |
| Mr K Gordon            | Cash                                           | 22 October 2010 | 0                                                         | 116,972                                                   | 116,972                                                  | 100                    | 0                    |
| Mr A Halls             | Cash                                           | 22 October 2010 | 0                                                         | 44,451                                                    | 24,240                                                   | 53                     | 47                   |
| Mr M Kirkpatrick       | Cash                                           | 22 October 2010 | 0                                                         | 34,404                                                    | 28,670                                                   | 83                     | 17                   |
| Mr I Testrow [B]       | Cash                                           | 22 October 2010 | 0                                                         | 50,161                                                    | 50,161                                                   | 100                    | 0                    |
| Mr D Tilbrook          | Cash                                           | 22 October 2010 | 0                                                         | 52,294                                                    | 27,890                                                   | 53                     | 47                   |
| Mr M Turner            | Cash                                           | 22 October 2010 | 0                                                         | 44,725                                                    | 23,853                                                   | 53                     | 47                   |

Notes:

(1) Mr Mossman was not eligible to participate in the Strategy Incentive Plan.

(2) Amounts reported in this table for all executives other than Mr Testrow are net of superannuation guarantee contributions payable in respect of strategic incentive plan payments.

(3) No amounts vest in future financial years in respect of the strategy incentive plan for FY11.

[A] Mr Gadomsky joined Emeco in May 2010 and was paid a proportion of the strategy incentive bonus based on his period of service between 1 January 2010 and the date on which bonus payments were determined.

[B] Mr Testrow's remuneration has been converted to Australian dollars on the basis of an AUD/CAD exchange rate of 0.9879.

### FY11 STI Grants

Short term incentives are used to reward the performance of key management personnel over a full financial year. The maximum achievable STI amount payable to an executive is set as a percentage of fixed remuneration. The actual amount of STI payable is determined at the end of the financial year in light of the executive's performance against agreed key performance indicators ("KPIs").



## Directors' report contd.

### For the year ended 30 June 2011

Under the FY11 STI plan, 60% of each executive's STI entitlement, other than the President Director, Indonesia was determined by reference to earnings performance and return on capital employed across the Emeco Group in order to align executives' incentives with both the quality and quantity of the Company's earnings performance. In the case of the President Director, Indonesia, 50% of his STI entitlement was determined by reference to the earnings performance and return on funds employed in the Indonesian business. The remaining KPIs for all executives reflected the Company's commitment to achieving certain non-financial goals in areas such as safety, business plan execution and fleet management.

Whilst the maximum percentage STI grant to key executives varies, no executive other than the Managing Director and the Chief Financial Officer is entitled to an STI grant which equals or exceeds 50% of the recipient's fixed annual remuneration earned during the financial year. The majority of key executives are entitled to a maximum STI grant of 40% of fixed annual remuneration. The Managing Director is entitled to a maximum STI grant of 100% of his fixed annual remuneration. The Chief Financial Officer is entitled to a maximum STI grant of 50% of his fixed annual remuneration. The President Director, Indonesia is entitled to a maximum STI grant of 30% of his fixed annual remuneration.

Details of the vesting profile of the STI cash grants awarded to key executives in respect of FY11 are set out below:

**Table 5 – Key executive STI vesting information in respect of FY11**

|                        | Nature of STI compensation | Approval date  | Minimum possible value of STI bonus | Maximum possible value of STI bonus | Amount of STI bonus awarded \$ | % of STI bonus awarded (1) | % of STI bonus forfeited (2) |
|------------------------|----------------------------|----------------|-------------------------------------|-------------------------------------|--------------------------------|----------------------------|------------------------------|
| Mr H Christie-Johnston | Cash                       | 22 August 2011 | 0                                   | 148,400                             | 91,089                         | 61.4                       | 38.6                         |
| Mr G Gadomsky [A]      | Cash                       | 22 August 2011 | 0                                   | 0                                   | 0                              | 0                          | 0                            |
| Mr S Gobby             | Cash                       | 22 August 2011 | 0                                   | 235,000                             | 176,440                        | 75.1                       | 24.9                         |
| Mr K Gordon            | Cash                       | 22 August 2011 | 0                                   | 884,000                             | 654,875                        | 74.1                       | 25.9                         |
| Mr A Halls             | Cash                       | 22 August 2011 | 0                                   | 149,600                             | 100,353                        | 67.1                       | 32.9                         |
| Mr M Kirkpatrick       | Cash                       | 22 August 2011 | 0                                   | 140,000                             | 103,713                        | 74.1                       | 25.9                         |
| Mr C Mossman [B]       | Cash                       | 22 August 2011 | 0                                   | 17,360                              | 8,680                          | 50.0                       | 50.0                         |
| Mr I Testrow [C]       | Cash                       | 22 August 2011 | 0                                   | 144,751                             | 111,576                        | 77.1                       | 22.9                         |
| Mr D Tilbrook          | Cash                       | 22 August 2011 | 0                                   | 198,816                             | 137,344                        | 69.1                       | 30.9                         |
| Mr M Turner            | Cash                       | 22 August 2011 | 0                                   | 176,000                             | 128,622                        | 73.1                       | 26.9                         |

Notes:

- (1) Amounts included in remuneration for FY11 represent the amounts that vested in the year based on the achievement of KPIs. No amounts vest in future financial years in respect of the STI scheme for FY11.
- (2) Amounts forfeited are due to the KPIs not being met in relation to FY11.
- [A] Mr Gadomsky ceased employment with Emeco on 25 March 2011.
- [B] Mr Mossman was appointed President Director, Indonesia on 16 October 2010. He commenced reporting to the Company's Managing Director on 11 March 2011 and became a key management person on that date. His remuneration has been converted to Australian dollars on the basis of an AUD/USD exchange rate of 1.0511 and the proportion of STI bonus disclosed is based on his period of service as a key management personnel between 11 March 2011 and 30 June 2011.
- [C] Mr Testrow's remuneration has been converted to Australian dollars on the basis of an AUD/CAD exchange rate of 0.9879.

## **Directors' report contd.**

### **For the year ended 30 June 2011**

#### **LTI remuneration**

##### **Performance Shares and Performance Rights**

Emeco has established an LTI plan to apply to Emeco's senior managers (which includes key management personnel). The plan provides Emeco's senior managers with an ongoing incentive to achieve the long term objectives of the Emeco Group.

Grants under the FY11 LTI plan were made to all key executives on the following key terms and conditions, which are substantially identical to the terms and conditions of grants made under the FY08, FY09 and FY10 LTI plans.

##### ***Australian based executives***

In FY11, unvested fully paid Emeco performance shares were granted to individual Australian-based executives, with the number of shares granted being determined by reference to the seniority of the executive and the value of the share grant as a percentage of the executive's salary. Performance shares were granted at no cost to the recipient and at a nil exercise price; they vest if the performance condition described below is met.

The performance shares were granted to individual Australian-based executives on substantially identical terms to the grant of performance rights in FY10. Performance rights were issued to Australian based executives in FY10 (rather than performance shares) because the Company ceased to satisfy the 75% offer participation test prescribed under Division 13A of the *Income Tax Assessment Act 1936*. However, in FY11 the Company established a broad based employee share plan for its Australian employees with the result that the Company satisfied the offer participation test prior to making offers under its FY11 LTI plan. As a result, the Company granted performance shares to its Australian based executives under the FY11 LTI plan.

##### ***Executives based outside Australia***

Emeco participants in the FY11 LTI plan who were working outside Australia were issued performance rights on substantially identical terms to the performance shares issued to Australian based executives. Each performance right provides the recipient with the right to receive one fully paid Emeco share if the relevant performance hurdle is met. Performance rights are issued to Emeco's offshore executives instead of performance shares due to the complexity and cost of the compliance issues associated with the issue of shares in the relevant foreign jurisdictions.

##### ***Vesting conditions for LTI securities***

The performance condition for both the vesting of performance shares and the exercise of performance rights under the FY11 LTI plan (and the FY09 and FY10 plans) is a performance hurdle based on relative total shareholder return (TSR). TSR was chosen as the performance condition because it is considered to be an effective means of aligning the interests of executives with the interests of shareholders. Emeco's TSR at the end of a 3 year vesting period will be measured against a Peer Group consisting of a group of 10 companies that are considered direct peers to Emeco and in addition companies in the S&P/ASX Small Industrials index (excluding banks, insurance companies, property trusts/companies and investment property trusts/companies and other stapled securities). The Peer Group at the time of the FY11 grant comprised a total of 97 companies (this number may change as a result of takeovers, mergers etc) (Peer Group). TSR for Emeco and each company in the Peer Group is calculated by reference to share price movement, dividends and capital returns.

## **Directors' report contd.**

### **For the year ended 30 June 2011**

At the conclusion of the vesting period, TSR for all companies including Emeco will be measured and ranked. Performance shares will only vest and performance rights will only be exercisable if a threshold TSR performance is achieved in comparison with the Peer Group TSR. There is a maximum and minimum vesting range and vesting occurs as follows:

- (a) If Emeco's TSR is less than the TSR of 50.1% of the companies of the Peer Group then no performance shares will vest and no performance rights will be exercisable.
- (b) If Emeco's TSR is equal to the TSR of 50.1% of the companies of the Peer Group then 50% of the performance shares will vest and 50% of the performance rights will be exercisable.
- (c) If Emeco's TSR is equal to the TSR of 75% of the companies of the Peer Group then 100% of the performance shares will vest and 100% of the performance rights will be exercisable.
- (d) If Emeco's TSR is equal to the TSR of between 50% and 75% of the companies of the Peer Group then an extra 2% of the performance shares granted vest, or an extra 2% of the performance rights become exercisable, for each percentile increase in Emeco's TSR above the 50th percentile.

Performance shares that have not vested after the end of the performance period will be transferred to a nominee of the Company. Performance rights which do not become exercisable will lapse.

Performance shares which have vested will be transferred into the name of the participant. Performance rights which become exercisable at the end of the three year vesting periods must be exercised within five years after the date of grant.

#### ***Change of terms of LTI grants***

Following a review of market practice in relation to LTI grants, the Directors resolved on 13 August 2010 to amend the terms of the grants of LTI securities under the FY08, FY09 and FY10 plans as follows:

- Commencing with the dividend declared by the directors for the half year ended 30 June 2010, dividends in respect of Performance Shares and shadow dividends in respect of Performance Rights would be paid to the holders of those securities. Previously, dividends were paid into the Emeco Employee Share Ownership Plan Trust.
- If there is an absolute change in control of the Company, all LTI securities on issue at the time of the change in control will automatically vest. Previously, the board retained discretion as to whether LTI securities would vest upon a change in control.

These terms were also incorporated into the terms of the FY11 LTI plan and will be incorporated into the terms of future LTI plans. All other terms of existing grants remained unchanged.

As at close of trading on 13 August 2010, the market price of an Emeco share was 72.5 cents.

The difference between the fair value of the LTI securities affected by the alteration of terms of LTI grants outlined above immediately before their alteration and after their alteration is set out in the following table.

**Directors' report contd.**  
**For the year ended 30 June 2011**

**Table 6 – Difference in fair value of LTI securities before and after the alteration of terms**

| LTI securities                                                                 | Fair value of each LTI security prior to alteration | Fair value of each LTI security after alteration |
|--------------------------------------------------------------------------------|-----------------------------------------------------|--------------------------------------------------|
| Performance Shares and Performance Rights issued in December 2007 (FY08 grant) | \$0.87                                              | \$0.89                                           |
| Performance Shares and Performance Rights issued in October 2008 (FY09 grant)  | \$0.22                                              | \$0.27                                           |
| Performance Rights issued in April 2010 (FY10 grant)                           | \$0.40                                              | \$0.49                                           |

For each key executive, the difference between the total fair value of the LTI securities issued to them and affected by the alteration of terms of LTI grants outlined above immediately before their alteration and after their alteration is set out in table 7.

**Table 7 – Difference in total of the fair value of LTI securities for each key executive**

|                            | Total fair value of LTI securities prior to alteration | Total fair value of LTI securities after alteration |
|----------------------------|--------------------------------------------------------|-----------------------------------------------------|
| Mr H Christie Johnston     | 191,481                                                | 237,412                                             |
| Mr G Gadomsky              | -                                                      | -                                                   |
| Mr S Gobby                 | 353,359                                                | 424,142                                             |
| Mr K Gordon <sup>(1)</sup> | 370,370                                                | 456,130                                             |
| Mr A Halls                 | 102,667                                                | 126,961                                             |
| Mr M Kirkpatrick           | 217,574                                                | 260,306                                             |
| Mr C Mossman               | n/a                                                    | n/a                                                 |
| Mr I Testrow               | 302,631                                                | 356,252                                             |
| Mr D Tilbrook              | 351,592                                                | 417,014                                             |
| Mr M Turner                | 313,296                                                | 369,532                                             |

<sup>(1)</sup> Mr Gordon was offered LTI securities under the FY10 LTI plan prior to the alteration of their terms. This offer was conditional on shareholder approval. Subsequently, at the Company's 2010 annual general meeting on 16 November 2010, shareholders approved the grant of LTI securities to Mr Gordon under the FY10 LTI plan on the altered terms outlined above and he was formally granted these securities on 19 November 2010.

**Prohibition of hedging LTI grants**

Emeco's share trading policy prohibits Directors and other officers of the Company from entering into transactions intended to hedge their exposure to Emeco securities which have been issued to the officer as part of the officer's remuneration.

## Directors' report contd.

### For the year ended 30 June 2011

#### Details of remuneration

Details of the elements comprising the remuneration of the Group's key management personnel, including each Director and each of the five named Company and Emeco Group executives who received the highest remuneration in FY11 are set out in table 8. Table 8 does not include the following components of compensation because they were not made available to key executives during FY11: short term cash profit-sharing bonuses, payments made to a person before the person started to hold a position, long term incentives distributed in cash, post-employment benefits other than superannuation, and share based payments other than shares and units and share based payments in the form of options. Table 9 provides comparative information in relation to the remuneration of the Group's key executives for the prior financial year.

**Table 8 – Directors' and Executive officers' remuneration FY11 (Company and Consolidated)**

|                                  | Short-term benefits    |                               |                             | Post-employment benefits      | Other long term benefits | Termination benefits | Share based payments   |            | Total            | Proportion of remuneration performance related | Value of options as proportion of remuneration |
|----------------------------------|------------------------|-------------------------------|-----------------------------|-------------------------------|--------------------------|----------------------|------------------------|------------|------------------|------------------------------------------------|------------------------------------------------|
|                                  | Salary & Fees<br>\$    | STI cash bonuses<br>[A]<br>\$ | Non-monetary benefits<br>\$ | Superannuation benefits<br>\$ | \$                       | \$                   | LTIP<br>\$             | MISP<br>\$ | \$               | %                                              | %                                              |
| <b>Non – Executive Directors</b> |                        |                               |                             |                               |                          |                      |                        |            |                  |                                                |                                                |
| Alec Brennan                     | 191,254                | -                             | -                           | 17,213                        | -                        | -                    | -                      | -          | 208,467          | -                                              | -                                              |
| Robert Bishop                    | 112,355                | -                             | -                           | 4,450                         | -                        | -                    | -                      | -          | 116,805          | -                                              | -                                              |
| John Cahill                      | 122,852 <sup>(1)</sup> | -                             | -                           | 11,057                        | -                        | -                    | -                      | -          | 133,909          | -                                              | -                                              |
| Peter Johnston                   | 106,638                | -                             | -                           | 9,597                         | -                        | -                    | -                      | -          | 116,235          | -                                              | -                                              |
| Peter Richards                   | 106,190                | -                             | -                           | 9,557                         | -                        | -                    | -                      | -          | 115,747          | -                                              | -                                              |
| <b>Executive Directors</b>       |                        |                               |                             |                               |                          |                      |                        |            |                  |                                                |                                                |
| Keith Gordon                     | 860,505                | 771,847                       | 665                         | 25,000                        | -                        | -                    | 299,483 <sup>(2)</sup> | -          | 1,957,500        | 54.7                                           | -                                              |
| <b>TOTAL ALL DIRECTORS</b>       | <b>1,499,794</b>       | <b>771,847</b>                | <b>665</b>                  | <b>76,874</b>                 | <b>-</b>                 | <b>-</b>             | <b>299,483</b>         | <b>-</b>   | <b>2,648,663</b> | <b>40.4</b>                                    | <b>-</b>                                       |

Notes:

[A] The short term incentive bonus includes payments made under the Strategy Incentive Plan and the FY11 STI Plan. The amount awarded to the Managing Director was finally determined on 22 August 2011 after completion of his performance review. The amount awarded to the Managing Director under the Strategy Incentive Plan was determined on 22 October 2010.

<sup>(1)</sup> During FY11 Mr Cahill was reimbursed \$8,788 in respect of underpayments relating to FY10. This adjustment is included in his FY11 remuneration.

<sup>(2)</sup> The share based payment includes the expense of the 925,926 performance rights, approved by shareholders at the Company's Annual General Meeting on 16 November 2010. Although this grant was approved and disclosed in FY11, it was a grant made under the FY10 LTI plan.

# Directors' report contd.

## For the year ended 30 June 2011

**Table 8 Directors' and Executive officers' remuneration FY11 (Company and Consolidated) – contd.**

|                                                                               | Short-term benefits    |                               |                             | Post-employment benefits      | Other long term benefits | Termination benefits | Share based payments |               | Total            | Proportion of remuneration performance related | Value of options as proportion of remuneration |
|-------------------------------------------------------------------------------|------------------------|-------------------------------|-----------------------------|-------------------------------|--------------------------|----------------------|----------------------|---------------|------------------|------------------------------------------------|------------------------------------------------|
|                                                                               | Salary & Fees<br>\$    | STI cash bonuses<br>[A]<br>\$ | Non-monetary benefits<br>\$ | Superannuation benefits<br>\$ | \$                       | \$                   | LTIP<br>\$           | MISP<br>\$    | \$               | %                                              | %                                              |
| <b>Executives</b>                                                             |                        |                               |                             |                               |                          |                      |                      |               |                  |                                                |                                                |
| H Christie-Johnston<br>General Manager<br>Emeco Sales                         | 282,616                | 111,272                       | 15,208                      | 27,252                        | -                        | -                    | 130,602              | 11,524        | 578,474          | 43.8                                           | 2.0                                            |
| Guido Gadomsky<br>General Manager<br>Strategy and Business<br>Development [B] | 219,972 <sup>(1)</sup> | 12,936                        | 402                         | 20,962                        | -                        | 212,500              | -                    | -             | 466,772          | 2.8                                            | -                                              |
| S Gobby<br>Chief Financial Officer                                            | 440,095                | 221,165                       | 2,716                       | 22,015                        | -                        | -                    | 206,191              | -             | 892,182          | 47.9                                           | -                                              |
| A Halls<br>General Manager<br>Australian Rental                               | 351,998                | 124,593                       | 594                         | 23,144                        | -                        | -                    | 84,899               | -             | 585,228          | 35.8                                           | -                                              |
| M Kirkpatrick<br>General Manager<br>Corporate Services                        | 321,059                | 132,383                       | 744                         | 25,418                        | -                        | -                    | 124,462              | 299           | 604,365          | 42.5                                           | 0.0                                            |
| C Mossman<br>President Director<br>Indonesia [C]                              | 56,108                 | 8,680                         | 30,442                      | -                             | -                        | -                    | 16,394               | -             | 111,624          | 22.514.7                                       | -                                              |
| I Testrow<br>President Emeco North<br>America [D]                             | 337,348                | 161,737                       | 68,315                      | -                             | -                        | -                    | 152,548              | 8,160         | 728,108          | 44.3                                           | 1.1                                            |
| D Tilbrook<br>Executive General<br>Manager South East Asia                    | 473,363                | 165,234                       | -                           | 26,187                        | -                        | -                    | 188,284              | -             | 853,068          | 41.4                                           | -                                              |
| M Turner<br>General Manager Global<br>Asset Management                        | 358,863                | 152,475                       | 14,632                      | 22,922                        | -                        | -                    | 163,688              | -             | 712,580          | 44.4                                           | -                                              |
| <b>TOTAL ALL EXECUTIVES</b>                                                   | <b>2,841,422</b>       | <b>1,090,475</b>              | <b>133,053</b>              | <b>167,900</b>                | <b>-</b>                 | <b>212,500</b>       | <b>1,067,068</b>     | <b>19,983</b> | <b>5,532,401</b> | <b>39.4</b>                                    | <b>0.4</b>                                     |
| <b>TOTAL ALL</b>                                                              | <b>4,341,216</b>       | <b>1,862,322</b>              | <b>133,718</b>              | <b>244,774</b>                | <b>-</b>                 | <b>212,500</b>       | <b>1,366,551</b>     | <b>19,983</b> | <b>8,181,064</b> | <b>39.7</b>                                    | <b>0.2</b>                                     |



## Directors' report contd.

### For the year ended 30 June 2011

#### Notes:

- [A] The short term incentive bonus includes payments made under the Strategy Incentive Plan and the FY11 STI Plan. The amount awarded to each executive under the FY11 STI Plan was finally determined on 22 August 2011 after completion of performance reviews. The amount awarded to each executive under the Strategy Incentive Plan was determined on 22 October 2010.
- [B] Mr Gadomsky ceased employment with Emeco on 25 March 2011.
- [C] Mr Mossman was appointed President Director, Indonesia on 16 October 2010. He commenced reporting to the Company's Managing Director on 11 March 2011 and became a key management person on that date. His remuneration has been converted to Australian dollars on the basis of an AUD/USD exchange rate of 1.0511 and his remuneration details are for the period 11 March 2011 to 30 June 2011.
- [D] Mr Testrow's remuneration has been converted to Australian dollars on the basis of an AUD/CAD exchange rate of 0.9879.
- <sup>(1)</sup> This figure excludes payout of accrued but untaken annual leave related to the cessation of Mr Gadomsky's employment. The amount paid was \$13,494.40.



# Directors' report contd.

## For the year ended 30 June 2011

**Table 9 - Directors' and Executive officers' remuneration FY10 (Company and Consolidated)**

|                                                                              | Short-term benefits    |                         |                          | Post-employment benefits   | Other long term benefits | Termination benefits | Share based payments |          | Total            | Proportion of remuneration performance related | Value of options as proportion of remuneration |
|------------------------------------------------------------------------------|------------------------|-------------------------|--------------------------|----------------------------|--------------------------|----------------------|----------------------|----------|------------------|------------------------------------------------|------------------------------------------------|
|                                                                              | Salary & Fees \$       | STI cash bonuses [A] \$ | Non-monetary benefits \$ | Superannuation benefits \$ | \$                       | \$                   | LTIP \$              | MISP \$  |                  | %                                              | %                                              |
| <b>Non - Executive Directors</b>                                             |                        |                         |                          |                            |                          |                      |                      |          |                  |                                                |                                                |
| Alec Brennan                                                                 | 183,830                | -                       | -                        | 16,544                     | -                        | -                    | -                    | -        | 200,374          | -                                              | -                                              |
| Robert Bishop                                                                | 102,752                | -                       | -                        | 9,247                      | -                        | -                    | -                    | -        | 111,999          | -                                              | -                                              |
| John Cahill                                                                  | 112,237                | -                       | -                        | 10,101                     | -                        | -                    | -                    | -        | 122,338          | -                                              | -                                              |
| Peter Johnston                                                               | 102,752                | -                       | -                        | 9,247                      | -                        | -                    | -                    | -        | 111,999          | -                                              | -                                              |
| Peter Richards [A]                                                           | 3,989                  | -                       | -                        | 358                        | -                        | -                    | -                    | -        | 4,347            | -                                              | -                                              |
| <b>Executive Directors</b>                                                   |                        |                         |                          |                            |                          |                      |                      |          |                  |                                                |                                                |
| Keith Gordon Managing Director [B]                                           | 472,532                | -                       | 489                      | 14,583                     | -                        | -                    | -                    | -        | 487,604          | -                                              | -                                              |
| Laurie Freedman Managing Director [C]                                        | 537,957 <sup>(1)</sup> | -                       | 31,185                   | 50,000                     | -                        | -                    | -                    | -        | 619,142          | -                                              | -                                              |
| Robin Adair Executive Director Corporate Strategy & Business Development [D] | 224,135 <sup>(2)</sup> | -                       | 13,484                   | 23,413                     | -                        | -                    | -                    | -        | 261,032          | -                                              | -                                              |
| <b>TOTAL ALL DIRECTORS</b>                                                   | <b>1,740,184</b>       | <b>-</b>                | <b>45,158</b>            | <b>133,493</b>             | <b>-</b>                 | <b>-</b>             | <b>-</b>             | <b>-</b> | <b>1,918,835</b> | <b>-</b>                                       | <b>-</b>                                       |

Notes:

[A] Mr Richards was appointed as a Director on 14 June 2010.

[B] Mr Gordon was appointed as a Director on 1 December 2009.

[C] Mr Freedman ceased as a Director on 30 November 2009 and left the Company on 4 January 2010.

[D] Mr Adair ceased as a Director on 18 November 2009 and left the Company on 30 November 2009.

[1] This figure excludes payout of accrued but untaken annual leave and long service leave related to the cessation of Mr Freedman's employment. The amount paid was \$652,233.

[2] This figure excludes payout of accrued but untaken annual leave and long service leave related to the cessation of Mr Adair's employment. The amount paid was \$326,153.



# Directors' report contd.

## For the year ended 30 June 2011

**Table 9 Directors' and Executive officers' remuneration FY10 (Company and Consolidated) – contd.**

|                                                     | Short-term benefits |                               |                             | Post-employment benefits      | Other long term benefits | Termination benefits | Share based payments |            | Total     | Proportion of remuneration performance related | Value of options as proportion of remuneration |
|-----------------------------------------------------|---------------------|-------------------------------|-----------------------------|-------------------------------|--------------------------|----------------------|----------------------|------------|-----------|------------------------------------------------|------------------------------------------------|
|                                                     | Salary & Fees<br>\$ | STI cash bonuses<br>[A]<br>\$ | Non-monetary benefits<br>\$ | Superannuation benefits<br>\$ | \$                       | \$                   | LTIP<br>\$           | MISP<br>\$ |           | %                                              | %                                              |
| <b>Executives</b>                                   |                     |                               |                             |                               |                          |                      |                      |            |           |                                                |                                                |
| H Christie-Johnston                                 |                     |                               |                             |                               |                          |                      |                      |            |           |                                                |                                                |
| General Manager Australian Sales & Parts            | 275,000             | -                             | 27,649                      | 24,750                        | -                        | -                    | 44,815               | 13,751     | 385,965   | 15.2                                           | 3.6                                            |
| S Gobby                                             |                     |                               |                             |                               |                          |                      |                      |            |           |                                                |                                                |
| Chief Financial Officer                             | 400,125             | -                             | 978                         | 24,975                        | -                        | -                    | 93,490               | -          | 519,568   | 18.0                                           | -                                              |
| A Halls                                             |                     |                               |                             |                               |                          |                      |                      |            |           |                                                |                                                |
| General Manager Eastern Australia                   | 258,751             | -                             | 15,189                      | 23,287                        | -                        | -                    | 18,667               | -          | 315,894   | 5.9                                            | -                                              |
| G Gadomsky                                          |                     |                               |                             |                               |                          |                      |                      |            |           |                                                |                                                |
| General Manager Strategy & Business Development [F] | 27,347              | -                             | -                           | 2,461                         | -                        | -                    | -                    | -          | 29,808    | -                                              | -                                              |
| M Kirkpatrick                                       |                     |                               |                             |                               |                          |                      |                      |            |           |                                                |                                                |
| General Manager Corporate Services                  | 302,000             | -                             | 1,411                       | 25,000                        | -                        | -                    | 55,241               | 2,497      | 386,149   | 15.0                                           | 0.6                                            |
| C Moseley                                           |                     |                               |                             |                               |                          |                      |                      |            |           |                                                |                                                |
| President Emeco USA [G]                             | 257,824             | -                             | -                           | 21,654                        | -                        | -                    | (33,088)             | -          | 246,390   | -                                              | -                                              |
| I Testrow                                           |                     |                               |                             |                               |                          |                      |                      |            |           |                                                |                                                |
| President North America [H]                         | 364,482             | -                             | 64,238                      | 3,240                         | -                        | -                    | 78,563               | 15,942     | 526,465   | 18.0                                           | 3.0                                            |
| D Tilbrook                                          |                     |                               |                             |                               |                          |                      |                      |            |           |                                                |                                                |
| Executive General Manager Western Region            | 472,040             | -                             | 886                         | 25,000                        | -                        | -                    | 90,926               | -          | 588,852   | 15.4                                           | -                                              |
| M Turner                                            |                     |                               |                             |                               |                          |                      |                      |            |           |                                                |                                                |
| General Manager Global Asset Management             | 329,250             | -                             | 15,384                      | 25,000                        | -                        | -                    | 81,963               | -          | 451,597   | 18.1                                           | -                                              |
| TOTAL ALL EXECUTIVES                                | 2,686,819           | -                             | 125,735                     | 175,367                       | -                        | -                    | 430,577              | 32,190     | 3,450,688 | 13.4                                           | 0.9                                            |
| TOTAL ALL                                           | 4,427,003           | -                             | 170,893                     | 308,860                       | -                        | -                    | 430,577              | 32,190     | 5,369,523 | 8.6                                            | 0.6                                            |



## Directors' report contd.

### For the year ended 30 June 2011

Notes:

- [E] The short term incentive bonus is for performance during FY10. The amount awarded to each executive was finally determined on 11 August 2010 after completion of performance reviews.
- [F] Mr Gadomsky was appointed to the position of General Manager Strategy and Business Development with effect from 24 May 2010.
- [G] Mr Moseley's remuneration has been converted to Australian dollars on the basis of an AUD/USD exchange rate of 0.8759. Mr Moseley left the Company on 29 January 2010. Mr Moseley's LTI payment was forfeited and is noted as a negative expense.
- [H] Mr Testrow was appointed to the position of President North America with effect from 1 February 2010. Prior to this appointment, Mr Testrow was the President, Emeco Canada. His remuneration has been converted to Australian dollars on the basis of an AUD/CAD exchange rate of 0.9303.
- [\*] Included in share based payments is the reversal of amounts recognised as remuneration in prior years as a result of MISP and LTIP entitlements being forfeited during the year. The MISP and LTIP entitlements were forfeited as a result of service vesting requirements not being achieved.

### Equity instruments

#### MISP

During FY11, the Company recognised share based payments to Messrs Christie-Johnston, Testrow and Kirkpatrick (MISP Participants) under the Company's Management Incentive Share Plan ("MISP"). Details of the share issue made to them under the MISP are set out below:

**Table 10 – MISP grants to key executives**

|                                                                                | <b>Hamish<br/>Christie-Johnston [A]</b> | <b>Ian<br/>Testrow [B]</b> | <b>Michael<br/>Kirkpatrick [C]</b> |
|--------------------------------------------------------------------------------|-----------------------------------------|----------------------------|------------------------------------|
| Number of shares issued under the MISP                                         | 500,000                                 | 300,000                    | 150,000                            |
| Issue price of the MISP shares                                                 | \$0.74                                  | \$1.155                    | \$0.61                             |
| Date of grant                                                                  | 14 March 2008                           | 12 June 2006               | 18 August 2005                     |
| Amount of Company loan in respect of MISP shares outstanding at reporting date | \$292,500                               | \$283,500                  | \$0                                |
| Highest amount of indebtedness during the period                               | \$337,500                               | \$310,500                  | \$73,500                           |
| Fair value recognised as remuneration during the year                          | \$11,524                                | \$8,160                    | \$299                              |

Notes:

- [A] As at 14 March 2011, the third anniversary of the grant of MISP shares to Mr Christie-Johnston, 125,000 shares have vested.
- [B] As at 12 June 2011, the fifth anniversary of the grant of MISP shares to Mr Testrow, all 300,000 shares have vested.
- [C] Mr Kirkpatrick sold 150,000 vested shares on 8 December 2010. The outstanding Company loan of \$70,500.00 in respect of the shares was repaid to Emeco on this date.

## **Directors' report contd.**

### **For the year ended 30 June 2011**

Key terms and conditions of the issue of shares to the MISP Participants under the MISP are as follows:

- In accordance with the terms of the MISP the Company provided each MISP Participant with an interest-free, limited recourse loan (Loan) to enable them to subscribe for the MISP shares.
- The shares vest over a 5 year period with the first 6.25% of the shares vesting 2 years after the issue date. The shares then vest on an annual basis until all of the shares have vested on the 5<sup>th</sup> anniversary of their issue.
- If a MISP Participant's employment with the Group is terminated before all of their MISP shares vest, then in relation to those shares which have not vested, the Company is required to buy them back, cancel them or transfer them to a nominee at a price equal to the Loan amount outstanding in respect of them and to set off the payment against the Loan amount owed to the Company. In relation to those shares which have vested, the Company must buy them back or transfer them to a nominee of the Board and pay to the MISP Participant a purchase price equal to their market value, subject to the Company setting off the Loan amount outstanding in respect of the vested shares.
- Subject to the approval of the Board, the Loan can be repaid at any time but must be repaid by the tenth anniversary of the commencement date of the MISP.
- Any dividends or capital distributions which may become payable in respect of the MISP shares may be applied by the Company in reducing the amount of the loan.

The share issues under the MISP to each MISP Participant, and the time based vesting conditions in respect of the shares, are not dependent on the satisfaction of a performance condition because the issue of shares to them and the inclusion of time based vesting conditions in the terms of issue were intended to provide them with an incentive to remain with the Group. That is, the terms upon which the shares were issued to the MISP Participants were intended to operate as a retention incentive arrangement rather than a performance incentive arrangement.

The MISP has been closed since 2008. The last allocation of shares to a key management person under the MISP was made to Mr Christie Johnston in March 2008.



**Directors' report contd.**  
**For the year ended 30 June 2011**

**LTI**

The terms of the LTI Plan are discussed at pages 36 to 37.

Grants of Performance Shares made to key management personnel under the Company's LTI plan (LTI Plan) in FY10 and FY11 are set out in table 11.

**Table 11 –FY10 and FY11 LTI Performance Share grants to key executives**

|                        | <b>Number granted during FY10 and FY11</b> | <b>Grant Date</b> | <b>Fair value per Performance Share [*]</b> | <b>Number of Performance Shares vesting during FY10 &amp; FY11 [A]</b> |
|------------------------|--------------------------------------------|-------------------|---------------------------------------------|------------------------------------------------------------------------|
| Mr H Christie-Johnston | FY10 -                                     | -                 | -                                           | -                                                                      |
|                        | FY11 265,000                               | 19 November 2010  | \$0.56                                      | -                                                                      |
| Mr S Gobby             | FY10 -                                     | -                 | -                                           | -                                                                      |
|                        | FY11 419,643                               | 19 November 2010  | \$0.56                                      | 78,000                                                                 |
| Mr K Gordon            | FY10 -                                     | -                 | -                                           | -                                                                      |
|                        | FY11 1,183,929                             | 19 November 2010  | \$0.56                                      | -                                                                      |
| Mr A Halls             | FY10 -                                     | -                 | -                                           | -                                                                      |
|                        | FY11 267,143                               | 19 November 2010  | \$0.56                                      | -                                                                      |
| Mr M Kirkpatrick       | FY10 -                                     | -                 | -                                           | -                                                                      |
|                        | FY11 250,000                               | 19 November 2010  | \$0.56                                      | 26,000                                                                 |
| Mr C Mossman [B]       | FY10 -                                     | -                 | -                                           | -                                                                      |
|                        | FY11 -                                     | -                 | -                                           | -                                                                      |
| Mr I Testrow           | FY10 -                                     | -                 | -                                           | -                                                                      |
|                        | FY11 -                                     | -                 | -                                           | 52,000                                                                 |
| Mr D Tilbrook          | FY10 -                                     | -                 | -                                           | -                                                                      |
|                        | FY11 355,029                               | 19 November 2010  | \$0.56                                      | 52,000                                                                 |
| Mr M Turner            | FY10 -                                     | -                 | -                                           | -                                                                      |
|                        | FY11 314,286                               | 19 November 2010  | \$0.56                                      | 52,000                                                                 |

## Directors' report contd.

### For the year ended 30 June 2011

Notes:

[A] For Performance Shares granted in FY11 the earliest vesting date is the tenth trading day after the announcement of the Company's annual results in August 2013. The vesting date is also the expiry date. The Performance Shares which vested in FY 11 were issued in October 2007 under the FY08 LTI plan. Under the terms of the FY08 LTI plan, no amount was required to be paid in respect of the Performance Shares and there was therefore no amount unpaid in respect of the shares at the time of vesting.

[B] Mr C Mossman was appointed President Director, Indonesia on 16 October 2010.

[\*] The fair value of the performance shares was determined using a Monte Carlo share price simulation model, and is allocated to each reporting period evenly over the period from grant date to costing date. The value disclosed in the Directors' and Officers' remuneration is the portion of the fair value of the performance shares recognised in this reporting period. The fair value disclosed is post modification of terms to the LTI plan.

Grants of performance rights made to key management personnel under the Company's LTI plan in FY10 and FY11 are set out in table 12.

**Table 12 – FY10 and FY11 LTI Performance Rights grants to key executives**

|                        | Number granted during FY10 & FY11 |         | Grant Date       | Fair value per Performance Right [*] | Number of Performance Rights vesting during FY10 [A] & FY11 [B] |
|------------------------|-----------------------------------|---------|------------------|--------------------------------------|-----------------------------------------------------------------|
| Mr H Christie-Johnston | FY10                              | 203,704 | 19 April 2010    | \$0.49                               | -                                                               |
|                        | FY11                              | -       | -                | -                                    | -                                                               |
| Mr S Gobby             | FY10                              | 300,926 | 19 April 2010    | \$0.49                               | -                                                               |
|                        | FY11                              | -       | -                | -                                    | -                                                               |
| Mr K Gordon [C]        | FY10                              | -       | -                | -                                    | -                                                               |
|                        | FY11                              | 925,926 | 19 November 2010 | \$0.49                               | -                                                               |
| Mr A Halls             | FY10                              | 166,667 | 19 April 2010    | \$0.49                               | -                                                               |
|                        | FY11                              | -       | -                | -                                    | -                                                               |
| Mr M Kirkpatrick       | FY10                              | 185,185 | 19 April 2010    | \$0.49                               | -                                                               |
|                        | FY11                              | -       | -                | -                                    | -                                                               |
| Mr C Mossman [D]       | FY10                              | n/a     | n/a              | n/a                                  | -                                                               |
|                        | FY11                              | 107,012 | 19 November 2010 | \$0.56                               | -                                                               |
| Mr I Testrow           | FY10                              | 239,077 | 19 April 2010    | \$0.49                               | -                                                               |
|                        | FY11                              | 269,393 | 19 November 2010 | \$0.56                               | -                                                               |
| Mr D Tilbrook          | FY10                              | 281,481 | 19 April 2010    | \$0.49                               | -                                                               |
|                        | FY11                              | -       | -                | -                                    | -                                                               |
| Mr M Turner            | FY10                              | 240,741 | 19 April 2010    | \$0.49                               | -                                                               |
|                        | FY11                              | -       | -                | -                                    | -                                                               |

## Directors' report contd.

### For the year ended 30 June 2011

Notes:

- [A] For performance rights granted in FY10 the earliest vesting date is 30 September 2012. The vesting date is also the expiry date.
- [B] For performance rights granted in FY11 the earliest vesting date is the tenth trading day after the announcement of the Company's annual results in 2013. The vesting date is also the expiry date.
- [C] Shareholders approved the grant of 925,926 Performance Rights to Mr Gordon at the Company's Annual General Meeting on 16 November 2010. Although this LTI grant was approved in FY11, it is a grant made under the FY10 LTI plan.
- [D] Mr C Mossman was appointed President Director, Indonesia on 16 October 2010. He was not a key management person in FY10. He commenced reporting to the Company's Managing Director on 11 March 2011 and became a key management person on that date.
- [\*] The fair value of the performance rights was determined using a Monte Carlo share price simulation model, and is allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed in the Directors' and Officers' remuneration is the portion of the fair value of the performance rights recognised in this reporting period. The FY10 fair value disclosed is post modification of terms to the LTI plan.

#### Emeco Employees Share Ownership Plan

During FY11 several senior Emeco executives participated in the Emeco Employee Share Ownership Plan ("ESOP"). Details of the shares purchased on their behalf and of the matching shares allocated to them under the ESOP are set out below:

**Table 13 – ESOP shares purchased and acquired by key executives**

|                          | Shares purchased | Matching shares granted |
|--------------------------|------------------|-------------------------|
| Hamish Christie-Johnston | 4,578            | 913                     |
| Guido Gadomsky           | 2,840            | 567                     |
| Stephen Gobby            | 4,578            | 913                     |
| Anthony Halls            | 4,578            | 913                     |
| Michael Turner           | 4,578            | 913                     |

Key terms and conditions of the ESOP are as follows:

- Australian based employees may salary sacrifice a minimum of \$500 and a maximum of \$5,000 of pre-tax salary or wage to acquire Emeco ordinary shares in accordance with the terms of the ESOP.
- For every 5 Shares acquired by the employee under the ESOP, Emeco provides one matching share at no cost to the employee.
- The matching shares are subject to a vesting condition. Under the ESOP, a participating employee must remain in their employment with Emeco for 1 year after the end of the calendar year in which the matching shares are acquired for them (Restriction Period). If an employee leaves the Company before the expiry of the Restriction Period, they forfeit the matching shares.
- All shares acquired under the ESOP are held in a trust on behalf of ESOP participants by the trustee, Pacific Custodians Pty Limited, which is an independent party separate from the Company.
- The ESOP shares are held by the trustee during the Restriction Period. The ESOP administrator, Link Market Services, releases the ESOP shares from the trust at the earlier of the expiry of the Restriction Period and the termination of the employee's employment with Emeco.

#### Service contracts

Except as outlined below, each of the key executives named in table 5 are employed pursuant to contracts which provide for an indefinite term and which are terminable on either party giving 6 months' notice or on the payment to the executive of up to 6 months' salary in lieu of notice. No termination payments other than salary in lieu of notice and accrued statutory leave entitlements are payable under these contracts.

## **Directors' report contd.**

### **For the year ended 30 June 2011**

#### **Mr Keith Gordon**

Mr Gordon's employment is for an indefinite duration. His employment may be terminated by the giving of 6 months' notice on either side. However, Emeco may terminate Mr Gordon's employment with a lesser period of notice on payment in lieu of notice not given.

Under Mr Gordon's employment agreement the following terms apply if there is a change of control event in respect of Emeco Holdings Ltd:

- Mr Gordon's LTI awards will automatically vest.
- For a period of two years following a change of control event in respect of Emeco Holdings Ltd, Mr Gordon will be entitled to 12 months' notice of termination. At the expiry of the two year period, the notice period will be reduced to 6 months.
- If, within two years of a change of control event in respect of Emeco Holdings Ltd, Emeco materially and substantially changes Mr Gordon's duties beyond the duties ordinarily performed by a Chief Executive Officer (other than with the Executive's agreement) he may serve written notice on the Emeco Board describing the conduct and indicating that he considers the conduct to be a serious breach of the Contract and that he elects to bring his employment to an end. If Emeco has repudiated the Contract and his employment is thereby brought to an end, following service of the above notice on the Emeco Board, Mr Gordon will be entitled to receive a payment equivalent to 12 month's base salary in lieu of notice.

#### **Mr Stephen Gobby**

Mr Gobby's contract is for an indefinite term and provides that it is terminable on either party giving 6 months' notice or on the payment to him of up to 6 months' salary in lieu of notice. If, however, a change of control of Emeco Holdings Ltd occurs or his duties are materially changed within certain time periods specified in the contract, then he is entitled to terminate the contract and to be paid a maximum amount of 6 months base salary and the full amount of his STI bonus.

#### **Mr Hamish Christie-Johnston**

Mr Christie-Johnston's contract is for an indefinite term and provides that it is terminable on either party giving 3 months' notice or on the payment to him of up to 3 months' salary in lieu of notice.

## **Directors' report contd.**

### **For the year ended 30 June 2011**

#### ***Non - Executive Directors***

A maximum amount of \$1,200,000 pa is currently prescribed in the Company's constitution as the total aggregate remuneration available to Non-Executive Directors.

The remuneration of all of the Non-Executive Directors other than Mr Brennan comprises a cash Director's fee of \$108,680 pa, inclusive of superannuation contributions. As Chairman, Mr Brennan is entitled to an annual fee of \$174,486, inclusive of superannuation contributions. An additional annual fee of \$8,151 is paid to any Director who is a member of a Board Committee; this fee is increased to \$10,868 for a Director who chairs a Committee.

#### ***Remuneration and the Company's performance***

The Directors consider that the remuneration policies of the Company effectively align the interests of Emeco's senior executives with the interests of the Company and its shareholders. This has been achieved by ensuring that a significant proportion of the senior executive's remuneration is "at risk" in the form of STI and LTI components. STI entitlements are linked to financial measures of the Company's profitability and return on capital, and to the achievement of strategic outcomes. LTI entitlements are linked to measures of total shareholder return.

The KPIs used to determine STI entitlements have been devised to ensure that key management personnel are rewarded for robust earnings performance and the achievement of key strategic objectives.

The extent to which Emeco has set financial performance KPIs which are genuinely challenging - and which entail that STI entitlements are genuinely at risk - is highlighted by the fact that no senior executive received an STI payment in FY10. Furthermore, only two senior executives received an STI payment in FY09 and only five of eleven senior executives received an STI payment in FY08. In FY11, STI payments to senior executives increased as a result of a significant improvement in earnings and return on capital and the achievement of a number of strategic objectives relating to the restructuring of Emeco's operations.

Based on the consolidated results set out in the Company's financial statements for FY06 through to FY10, the Group achieved a compound annual decline in operating EBITA of 5.9%. As a result of these declines, and as noted above, the STI entitlements of Emeco's senior executives in these years were significantly reduced. However, Emeco's operating EBITA increased by 21.0% from \$83.6 million in FY10 to \$101.2 million in FY11, and its operating return on capital increased from 8.3% to 11.3% over the same period, with the result that STI entitlements for Emeco's senior executives were increased in FY11.

The Company's share price has declined significantly since FY07; however, it increased by nearly 100% from 57 cents at close of trading on 1 July 2010 to \$1.13 at close of trading on 30 June 2011. Furthermore, the Company has maintained its dividend policy of paying shareholders between 35% and 45% of the Company's profit, with two exceptions. First, no dividend was paid for the half year ended 31 December 2009 in the wake of the global financial crisis. Second, the company paid a special dividend of five cents per share for the half year ended 31 December 2010 and has declared a dividend of three cents per share for the half year ended 30 June 2011, a total of ten cents per share in respect of FY11. The primary means available to the Company to grow shareholder wealth, whether by way of dividend distributions or increases in the Company's share price, is to strive to increase earnings and return on capital. In this regard, the Company will maintain remuneration policies and practices which reward strong financial performance and align the interests of management with the interests of shareholders.

**Directors' report contd.**  
**For the year ended 30 June 2011**

***Indemnification and insurance of directors, officers and auditors***

The Company has entered into a deed of access, indemnity and insurance with each of its current and former Directors, the Chief Financial Officer and the Company Secretary. Under the terms of the deed, the Company indemnifies the officer or former officer, to the extent permitted by law, for liabilities incurred as an officer of the Company. The deed provides that the Company must advance the officer reasonable costs incurred by the officer in defending certain proceedings or appearing before an inquiry or hearing of a government agency.

Since the end of the previous financial year, the Company has paid premiums in respect of contracts insuring the current and former Directors and Officers of the Emeco Group, including senior executives, against liabilities incurred by such a Director, Officer or Executive to the extent permitted by the *Corporations Act 2001*. The contracts of insurance prohibit disclosure of the nature of the liability cover and the amount of the premium.

The Group has not indemnified its auditors, KPMG.

***Non-audit services***

During the year, KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the Corporate governance procedures adopted by the Company;
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditors own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing the risks and rewards.

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is included in the Director's report.

Details of fees paid to the Company's auditors for non-audit services are found in Note 8 of the financial report.

***Rounding***

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/100 dated 10 July 1998. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the Directors.



Keith Gordon  
Managing Director

Dated at Perth, 22<sup>nd</sup> day of August 2011.



***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of Emeco Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

*KPMG.*

KPMG

A handwritten signature in dark ink, appearing to read 'R Gambitta', followed by a period.

R Gambitta  
*Partner*

Perth  
22 August 2011

**Emeco Holdings Limited and its Controlled Entities**  
**Consolidated Statement of Comprehensive Income**  
**For the year ended 30 June 2011**

|                                                                                  | Note | 2011<br>\$'000 | 2010<br>\$'000 |
|----------------------------------------------------------------------------------|------|----------------|----------------|
| <b>Continuing operations</b>                                                     |      |                |                |
| Revenue from rental income                                                       |      | 386,530        | 302,355        |
| Revenue from the sale of machines and parts                                      |      | 62,795         | 64,328         |
| Revenue from maintenance services                                                |      | 53,170         | 38,276         |
|                                                                                  |      | 502,495        | 404,959        |
| Changes in machinery and parts inventory                                         |      | (69,432)       | (72,010)       |
| Repairs and maintenance                                                          |      | (129,240)      | (94,208)       |
| Employee expenses                                                                |      | (40,769)       | (34,677)       |
| Hired in equipment and labour                                                    |      | (8,916)        | (2,857)        |
| Gross profit                                                                     |      | 254,138        | 201,207        |
| Other income                                                                     | 6    | 7,211          | 5,025          |
| Other expense                                                                    | 7    | (42,198)       | (23,804)       |
| Impairment of tangible assets                                                    | 7    | (3,772)        | (13,793)       |
| Business restructuring costs                                                     |      | -              | (950)          |
| EBITDA <sup>(1)</sup>                                                            |      | 215,379        | 167,685        |
| Impairment of goodwill                                                           | 20   | -              | (20,105)       |
| Depreciation expense                                                             | 7    | (121,915)      | (98,775)       |
| Amortisation expense                                                             | 7    | (258)          | (295)          |
| EBIT <sup>(2)</sup>                                                              |      | 93,206         | 48,510         |
| Financial income                                                                 | 7    | 281            | 157            |
| Financial costs                                                                  | 7    | (23,240)       | (22,882)       |
| Profit before income tax expense                                                 |      | 70,247         | 25,785         |
| Income tax (expense)/benefit                                                     | 9    | (20,273)       | (13,485)       |
| Profit from continuing operations                                                |      | 49,974         | 12,300         |
| <b>Discontinued operations</b>                                                   |      |                |                |
| Loss from discontinued operations<br>(net of income tax) before equity transfers | 13   | (434)          | (56,242)       |
| FCTR of discontinued operations disposed <sup>(3)</sup>                          | 13   | 420            | (5,371)        |
| Loss on sale of discontinued operations (net of tax)                             | 13   | (351)          | -              |
| Loss from discontinued operations                                                |      | (365)          | (61,613)       |
| Profit/(Loss) for the year                                                       |      | 49,609         | (49,313)       |
| <b>Other comprehensive income (after tax)</b>                                    |      |                |                |
| Foreign currency translation differences for<br>foreign operations               |      | (16,978)       | (5,473)        |
| FCTR of discontinued operations disposed <sup>(3)</sup>                          |      | 420            | 5,371          |
| Effective portion of changes in fair value<br>of cash flow hedges                |      | 3,259          | 3,290          |
| Total comprehensive income/(loss) for the year                                   |      | (13,299)       | 3,188          |

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 58 to 132.

**Emeco Holdings Limited and its Controlled Entities**  
**Consolidated statement of comprehensive income (continued)**  
**For the year ended 30 June 2011**

|                                          | Note | 2011<br>\$'000     | 2010<br>\$'000     |
|------------------------------------------|------|--------------------|--------------------|
| Attributed to:                           |      |                    |                    |
| Equity holders of the Company            |      | 36,310             | (46,125)           |
| <b>Earnings per share:</b>               |      | <b>2011<br/>\$</b> | <b>2010<br/>\$</b> |
| Basic earnings/(loss) per share          | 36   | 0.081              | (0.080)            |
| Diluted earnings/(loss) per share        | 36   | 0.079              | (0.080)            |
| Earnings per share-continuing operations |      |                    | -                  |
| Basic earnings per share                 | 36   | 0.082              | 0.020              |
| Diluted earnings per share               |      | 0.079              | 0.020              |

<sup>(1)</sup> EBITDA - Earnings before interest expense, tax, depreciation and amortisation.

<sup>(2)</sup> EBIT - Earnings before interest expense and tax.

<sup>(3)</sup> FCTR - Transfer of Foreign Currency Translation Reserve ("FCTR") from equity reserve to profit upon foreign operations of the Group being disposed.

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 58 to 132.

**Emeco Holdings Limited and its Controlled Entities**  
**Consolidated Statement of Financial Position**  
**as at 30th June 2011**

|                                                            | Note | 2011<br>\$'000 | 2010<br>\$'000 |
|------------------------------------------------------------|------|----------------|----------------|
| <b>Current Assets</b>                                      |      |                |                |
| Cash assets                                                | 16   | 5,502          | 5,239          |
| Trade and other receivables                                | 17   | 83,251         | 90,327         |
| Inventories                                                | 19   | 48,569         | 87,017         |
| Prepayments                                                | 18   | 2,313          | 4,550          |
| Current tax asset                                          | 10   | 427            | 656            |
| Assets classified as held for sale                         | 14   | 8,728          | 38,413         |
| Total current assets                                       |      | 148,790        | 226,202        |
| <b>Non-current assets</b>                                  |      |                |                |
| Trade and other receivables                                | 17   | 581            | 14             |
| Intangible assets                                          | 20   | 173,248        | 178,192        |
| Property, plant and equipment                              | 21   | 658,533        | 610,346        |
| Total non-current assets                                   |      | 832,362        | 788,552        |
| Total assets                                               |      | 981,152        | 1,014,754      |
| <b>Current Liabilities</b>                                 |      |                |                |
| Trade and other payables                                   | 22   | 48,397         | 50,737         |
| Interest bearing liabilities                               | 23   | 3,308          | 5,203          |
| Current tax liabilities                                    | 10   | 6,790          | 5,858          |
| Provisions                                                 | 25   | 5,117          | 5,302          |
| Liabilities classified as held for sale                    | 14   | -              | 2,196          |
| Total current liabilities                                  |      | 63,612         | 69,296         |
| <b>Non-current Liabilities</b>                             |      |                |                |
| Interest bearing liabilities                               | 23   | 290,495        | 298,892        |
| Deferred tax liabilities                                   | 11   | 23,943         | 23,020         |
| Provisions                                                 | 25   | 868            | 803            |
| Total non-current liabilities                              |      | 315,306        | 322,715        |
| Total liabilities                                          |      | 378,918        | 392,011        |
| Net assets                                                 |      | 602,234        | 622,743        |
| <b>Equity</b>                                              |      |                |                |
| Share capital                                              | 27   | 610,304        | 609,578        |
| Reserves                                                   |      | (32,462)       | (18,429)       |
| Retained earnings                                          |      | 24,392         | 31,594         |
| Total equity attributable to equity holders of the Company |      | 602,234        | 622,743        |

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 58 to 132.

**Emeco Holdings Limited and its Controlled Entities**  
**Consolidated Statement of Changes in Equity**  
**For the year ended 30 June 2011**

|                                                                           | Share capital<br>\$'000 | Share based payment reserve<br>\$'000 | Hedging reserve<br>\$'000 | Foreign currency translation reserve<br>\$'000 | Reserve for own shares<br>\$'000 | Retained earnings<br>\$'000 | Total equity<br>\$'000 |
|---------------------------------------------------------------------------|-------------------------|---------------------------------------|---------------------------|------------------------------------------------|----------------------------------|-----------------------------|------------------------|
| Balance at 1 July 2009                                                    | 609,470                 | 1,832                                 | (10,536)                  | (7,562)                                        | (3,870)                          | 93,532                      | 682,866                |
| <b>Total comprehensive income for the year</b>                            |                         |                                       |                           |                                                |                                  |                             |                        |
| Profit or (loss)                                                          | -                       | -                                     | -                         | -                                              | -                                | (49,313)                    | (49,313)               |
| <i>Other comprehensive income</i>                                         |                         |                                       |                           |                                                |                                  |                             |                        |
| Foreign currency translation differences                                  | -                       | -                                     | -                         | (5,473)                                        | -                                | -                           | (5,473)                |
| Exchange differences of disposed foreign operations                       | -                       | -                                     | -                         | 5,371                                          | -                                | -                           | 5,371                  |
| Effective portion of changes in fair value of cash flow hedge, net of tax | -                       | -                                     | 3,290                     | -                                              | -                                | -                           | 3,290                  |
| Total comprehensive income/(loss) for the year                            | -                       | -                                     | 3,290                     | (102)                                          | -                                | (49,313)                    | (46,125)               |
| <b>Transactions with owners, recorded directly in equity</b>              |                         |                                       |                           |                                                |                                  |                             |                        |
| <i>Contributions by and distributions to owners</i>                       |                         |                                       |                           |                                                |                                  |                             |                        |
| Own shares acquired by employee share plan trust                          | -                       | -                                     | -                         | -                                              | (2,377)                          | -                           | (2,377)                |
| Dividends to equity holders                                               | 68                      | -                                     | -                         | -                                              | -                                | (12,625)                    | (12,557)               |
| Share-based payment transactions                                          | 40 <sup>(1)</sup>       | 896                                   | -                         | -                                              | -                                | -                           | 936                    |
| Total contributions by and distributions to owners                        | 108                     | 896                                   | -                         | -                                              | (2,377)                          | (12,625)                    | (13,998)               |
| Balance at 30 June 2010                                                   | 609,578                 | 2,728                                 | (7,246)                   | (7,664)                                        | (6,247)                          | 31,594                      | 622,743                |

|                                                                           | Share capital<br>\$'000 | Share based payment reserve<br>\$'000 | Hedging reserve<br>\$'000 | Foreign currency translation reserve<br>\$'000 | Reserve for own shares<br>\$'000 | Retained earnings<br>\$'000 | Total equity<br>\$'000 |
|---------------------------------------------------------------------------|-------------------------|---------------------------------------|---------------------------|------------------------------------------------|----------------------------------|-----------------------------|------------------------|
| Balance at 1 July 2010                                                    | 609,578                 | 2,728                                 | (7,246)                   | (7,664)                                        | (6,247)                          | 31,594                      | 622,743                |
| <b>Total comprehensive income for the year</b>                            |                         |                                       |                           |                                                |                                  |                             |                        |
| Profit or (loss)                                                          | -                       | -                                     | -                         | -                                              | -                                | 49,609                      | 49,609                 |
| <i>Other comprehensive income</i>                                         |                         |                                       |                           |                                                |                                  |                             |                        |
| Foreign currency translation differences                                  | -                       | -                                     | -                         | (16,978)                                       | -                                | -                           | (16,978)               |
| Exchange differences of disposed foreign operations                       | -                       | -                                     | -                         | 420                                            | -                                | -                           | 420                    |
| Effective portion of changes in fair value of cash flow hedge, net of tax | -                       | -                                     | 3,259                     | -                                              | -                                | -                           | 3,259                  |
| Total comprehensive income/(loss) for the year                            | -                       | -                                     | 3,259                     | (16,558)                                       | -                                | 49,609                      | 36,310                 |
| <b>Transactions with owners, recorded directly in equity</b>              |                         |                                       |                           |                                                |                                  |                             |                        |
| <i>Contributions by and distributions to owners</i>                       |                         |                                       |                           |                                                |                                  |                             |                        |
| Own shares acquired by employee share plan trust                          | -                       | -                                     | -                         | -                                              | (4,468)                          | -                           | (4,468)                |
| Dividends to equity holders                                               | 220                     | -                                     | -                         | -                                              | -                                | (56,811)                    | (56,591)               |
| Share-based payment transactions                                          | 506 <sup>(1)</sup>      | 3,734                                 | -                         | -                                              | -                                | -                           | 4,240                  |
| Total contributions by and distributions to owners                        | 726                     | 3,734                                 | -                         | -                                              | (4,468)                          | (56,811)                    | (56,819)               |
| Balance at 30 June 2011                                                   | 610,304                 | 6,462                                 | (3,987)                   | (24,222)                                       | (10,715)                         | 24,392                      | 602,234                |

<sup>(1)</sup> Payments made in satisfaction of outstanding loans on vested shares under the Company's Management Incentive Share Plan.

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 58 to 132.

**Emeco Holdings Limited and its Controlled Entities**  
**Consolidated statement of Cash Flows**  
**For the year ended 30 June 2011**

|                                                          | Note   | 2011<br>\$'000 | 2010<br>\$'000 |
|----------------------------------------------------------|--------|----------------|----------------|
| <b>Cash flows from operating activities</b>              |        |                |                |
| Cash receipts from customers                             |        | 517,811        | 451,403        |
| Cash paid to suppliers and employees                     |        | (270,328)      | (263,023)      |
| Cash generated from operations                           |        | 247,483        | 188,380        |
| Interest received                                        |        | 566            | 162            |
| Interest paid                                            |        | (19,075)       | (23,005)       |
| Income tax paid                                          |        | (14,043)       | (18,075)       |
| Net cash provided by/(used in) operating activities      | 31(ii) | 214,931        | 147,462        |
| <b>Cash flows from investing activities</b>              |        |                |                |
| Proceeds on disposal of non-current assets               |        | 39,439         | 47,523         |
| Payment for property, plant and equipment                |        | (199,950)      | (155,050)      |
| Disposal of discontinued operations net of cash disposed | 13     | 14,423         | -              |
| Net cash used in investing activities                    |        | (146,088)      | (107,527)      |
| <b>Cash flows from financing activities</b>              |        |                |                |
| Proceeds from borrowings                                 |        | 134,151        | 119,046        |
| Repayment of borrowings                                  |        | (130,131)      | (141,448)      |
| Purchase of own shares                                   |        | (4,468)        | (2,377)        |
| Payment for debt establishment costs                     |        | (4,054)        | -              |
| Payment of finance lease liabilities                     |        | (7,578)        | (7,973)        |
| Dividends paid                                           |        | (56,867)       | (12,625)       |
| Net cash provided by/(used in) financing activities      |        | (68,947)       | (45,377)       |
| Net (decrease)/increase in cash held                     |        | (104)          | (5,442)        |
| Cash at the beginning of the period                      |        | 5,239          | 10,422         |
| Effects of exchange rate fluctuations on cash held       |        | 367            | 259            |
| Cash at the end of the financial period                  | 31(i)  | 5,502          | 5,239          |

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 58 to 132.

## **1 Reporting entity**

Emeco Holdings Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Level 3, 71 Walters Drive, Osborne Park WA 6017. The consolidated financial statements of the Company as at and for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in the renting, maintaining and selling of heavy earthmoving equipment to customers in the mining industry (refer note 15).

## **2 Basis of preparation**

### **(a) Statement of compliance**

The consolidated statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards ("IFRSs") adopted by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorised for issue by the Board of Directors on 22nd August 2011.

### **(b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following material item in the statement of financial position:

- derivative financial instruments are measured at fair value

The methods used to measure fair values are discussed further in note 4.

### **(c) Functional and presentation currency**

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

### **(d) Use of estimates and judgements**

The preparation of the consolidated financial statements in conformity with the IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

#### **Impairment of assets**

The recoverable amount of each non financial asset is determined as the higher of the value-in-use and fair value less costs to sell, in accordance with the Company's accounting policy note 3(i)(ii). Determination of the recoverable amount of an asset based on a discounted cash flow model, requires the use of estimates and assumptions, including; the appropriate rate at which to discount the cash flows, the timing of the cash flow, market risk premium, interest rates, exchange rates, growth rates, future capital requirements and future operating performance. Changes in these estimates and assumptions impact the recoverable amount of the asset, and accordingly could result in an adjustment to the carrying amount of that asset. The carrying amount of such assets is set out in note 20.

## 2 Basis of preparation (continued)

### (d) Use of estimates and judgements (continued)

#### Recognition of tax losses

In accordance with the Company's accounting policies for deferred taxes (refer note 3(p)), a deferred tax asset is recognised for unused tax losses only if it is probable that future taxable profits will be available to utilise these losses. This includes estimates and judgements about future profitability and tax rates. Changes in these estimates and assumptions could impact on the amount and probability of unused tax losses and accordingly the recoverability of deferred tax assets. The carrying amount of deferred tax assets are set out in note 11.

#### Share based payments

The share based payments are recognised in accordance with the Company's accounting policies (refer note 3(k)(v)) where the value of the share based payment is expensed from the grant date to vesting date. This valuation includes estimates and judgements about volatility, risk free rates, dividend yields, total shareholder return ("TSR") and underlying share price. Changes in these estimates and assumptions could impact on the measurement of the share based payment as set out in note 26.

### (e) Changes in accounting policies

From 1 July 2010 the Group has not changed its accounting policies.

## 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

### (a) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### (ii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity. Any cash paid for the acquisition is recognised directly in equity.

#### (iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 3 Significant accounting policies (continued)

**(b) Foreign currency**

**(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

**(ii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve ("FCTR") in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

**(c) Financial instruments**

**(i) Non-derivative financial assets**

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has non-derivative financial assets being: loans and receivables.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

### 3 Significant accounting policies (continued)

#### (c) Financial instruments (continued)

##### (ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classified non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised costs using the effective interest rate method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

##### (iii) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to hedged risk and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

##### *Cash flow hedges*

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with the recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount recognised in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified in profit or loss.

### 3 Significant accounting policies (continued)

(c) **Financial instruments (continued)**

(iv) **Share capital**

*Other non-trading derivatives*

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

*Purchase of share capital (treasury shares)*

When share capital recognised as equity is purchased by the employee share plan trust, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Purchased shares are classified as treasury shares and are presented in the reserve for own shares net of any tax effects. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

*Dividends*

Dividends are recognised as a liability in the period in which they are declared.

(d) **Property, plant and equipment**

(i) **Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within other income/other expenses in profit or loss.

(ii) **Subsequent costs**

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. Expenditure on major overhauls and refurbishments of equipment is capitalised in property, plant and equipment as it is incurred, where that expenditure is expected to provide future economic benefits. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

### 3 Significant accounting policies (continued)

#### (d) Property, plant and equipment (continued)

##### (iii) Depreciation

Items of property, plant and equipment, excluding freehold land, are depreciated over their estimated useful lives and are charged to the statement of comprehensive income. Estimates of remaining useful lives, residual values and the depreciation method are made on a regular basis, with annual re-assessments for major items.

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Where subsequent expenditure is capitalised into the asset, the estimated useful life of the total new asset is reassessed and depreciation charged accordingly.

Depreciation on buildings, leasehold improvements, furniture, fixtures and fittings, office equipment, motor vehicles and sundry plant is calculated on a straight-line basis. Depreciation on plant and equipment is calculated and charged on machine hours worked over their estimated useful life.

The estimated useful lives are as follows:

|                                  |              |
|----------------------------------|--------------|
| Leasehold Improvements           | 15 years     |
| Plant and Equipment              | 3 – 15 years |
| Furniture, Fixtures and Fittings | 10 years     |
| Office Equipment                 | 3 – 10 years |
| Motor Vehicles                   | 5 years      |
| Sundry Plant                     | 7 – 10 years |

#### (e) Intangible assets

##### (i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

##### *Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses.

##### (ii) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

##### (iii) Amortisation

Amortisation is based on the cost of an asset less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- Software 0 – 3 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### 3 Significant accounting policies (continued)

**(f) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's statement of financial position.

**(g) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Inventory is occasionally sold under a Rental Purchase Option ("RPO"). Under the RPO the purchaser is entitled to a rebate upon exercising the option. A charge is recognised against the carrying value of inventory on RPOs to reflect the consumption of economic benefits related to that inventory.

**(h) Work in progress**

Progressive capital work to inventory and fixed assets are carried in work in progress accounts within their respective statement of financial position classifications with fixed assets being disclosed as a "capital work in progress". Upon work completion the balance is capitalised.

**(i) Impairment**

**(i) Non-derivative financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and economic conditions that correlate the defaults.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

### 3 Significant accounting policies (continued)

(i) **Impairment (continued)**

(i) **Non-derivative financial assets (continued)**

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) **Non-financial assets**

The carrying amounts of the Group's non-financial assets, excluding inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash generating unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing fair value, the Group has assessed the amount it could obtain on disposal, less realisation costs. Fair value is calculated with regard to the discounted post tax cash flows or comparable transactions for similar businesses. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of cash-generating units that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill assets were tested for impairment at 30 June 2011 as part of the Group's process of annually testing goodwill for impairment.

### 3 Significant accounting policies (continued)

**(j) Non-current assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

**(k) Employee benefits**

**(i) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

**(ii) Other long-term employee benefits**

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Commonwealth Government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

**(iii) Termination benefits**

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

**(iv) Short-term benefits**

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### **3 Significant accounting policies (continued)**

**(k) Employee benefits (continued)**

**(v) Share based payment transactions**

- (a) A management incentive share plan ("MISP") allows certain consolidated entity employees to acquire shares of the Company. Employees have been granted a limited recourse 10 year interest free loan in which to acquire the shares. The loan has not been recognised as the Company only has recourse to the value of the shares. The arrangement is accounted for as an in-substance option over ordinary shares. The grant date fair value of the shares granted to employees is recognised as an employee expense with a corresponding increase in equity, over the period during which the employees become unconditionally entitled to the shares. The fair value of the MISP granted is measured using a Black Scholes pricing model, taking into account the terms and conditions upon which the in-substance options were granted. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest except where forfeiture is only due to shares prices not achieving the threshold for vesting.
- (b) The share option programme allows certain employees to acquire shares of the Company. The grant date fair value of options granted to employees is recognised as an employee expense with a corresponding increase in equity, over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option-pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market conditions not being met, i.e. share prices not achieving the threshold for vesting.
- (c) A long term incentive plan ("LTIP") allows certain management personnel to receive shares or rights of the Company upon satisfying performance conditions. Under the LTIP rights or shares granted to each LTIP participant vest to the employee after 3 years if the prescribed performance condition is met. The performance condition is a performance hurdle based on relative total shareholder return ("TSR"). The peer group that the Company's TSR is measured against consists of 97 - 98 Companies and includes 12 Companies that are considered direct peers to Emeco, in addition to the S&P/ASX Small Industrials (excluding banks, insurance companies, property trust companies and investment property trust/companies and other stapled securities). The fair value of the performance rights or shares granted under the LTIP have been measured using Monte Carlo simulation analysis and are expensed evenly over the period from grant date to vesting date.

If the terms of the LTIP are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

- (d) During the year, an employee share ownership plan ("ESOP") was established to allow certain employees to acquire shares in the Company via salary sacrifice. For every five shares purchased by the employee, recognised as treasury shares, the Company provides one matching share, recognised as a share based payment. Under the ESOP, the matching share will vest to the employee after one year after the end of calendar year in which the matching shares are acquired. These matching shares are fair valued and are expensed evenly over the period from grant date to vesting date. ESOP employees are entitled to dividends on the matching share when the dividends are declared.
- (e) Dividends received while satisfying the performance conditions of share issues under the MISP are allocated against the employee outstanding loan. Commencing 13 August 2010, all LTIP and ESOP recipients are entitled to any dividends that are declared during the vesting period.

### 3 Significant accounting policies (continued)

**(l) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**(i) Restructuring**

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

**(m) Revenue**

**(i) Rental revenue**

Revenue from the rental of machines is recognised in profit and loss based on the number of hours the machines operate each month. Contracts generally have a minimum hour clause which is triggered should the machine operate under these hours during each month. Customers are billed monthly. Revenue is measured at the fair value of consideration received or receivable.

**(ii) Goods sold**

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

**(iii) Maintenance services**

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

**(n) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**(o) Finance income and finance costs**

Finance income comprises interest income, dividend income, fair value gains on financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, fair value losses on financial assets at fair value through profit or loss, losses on hedging instruments that are recognised in profit or loss and impairment losses recognised on financial assets (other than trade receivables). All borrowing costs are recognised in profit or loss.

Foreign currency gains and losses are reported on a net basis in either finance income or finance expense depending on whether foreign currency movements are in a net gain or net loss position.

### **3 Significant accounting policies (continued)**

**(p) Income tax**

Income tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 16 December 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Emeco Holdings Limited.

**(q) Discontinued operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

**(r) Earnings per share**

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise management performance shares, and share options granted to employees.

### 3 Significant accounting policies (continued)

**(s) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Board of Directors to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly cash, interest bearing liabilities and finance expense.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

**(t) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 *Financial Instruments*, which becomes mandatory for the Group's 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

### 4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(i) Property, plant and equipment**

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate. Depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence.

**(ii) Intangible assets**

The fair value of contract intangibles acquired in a business combination is based on the discounted estimated net future cash flows that are expected to arise as a result of the contracts that are in place when the business combination was finalised.

**(iii) Inventory**

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

**(iv) Trade and other receivables**

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

#### 4 Determination of fair values (continued)

**(v) Derivatives**

The fair value of forward exchange contracts is based on the discounted value of the difference between the rate the contractual forward price and the current forward price for the residual maturity of the contract using a risk free rate.

The fair value of interest rate swaps is based on third party valuations provided by financiers. Those valuations are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

**(vi) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

**(vii) Share-based payment transactions**

The fair value of employee share options, management incentive plan shares, and long term incentive plan shares are measured using an option pricing model. Measurement inputs include share price on issue, exercise price of the instrument, expected volatility, weighted average expected life of the instruments, market performance conditions, expected dividends, and the risk-free interest rate. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. The employee share ownership plan shares are measured at cost.



## **5 Financial risk management**

### **Overview**

The Group has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

### **Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Audit and Risk Committee ("Committee"), which is responsible for developing and monitoring the Group's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training, management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Committee is assisted in its oversight role by internal audit. Internal audit undertakes reviews of risk management controls and procedures at the direction of the Committee. The results of the reviews are reported to the Committee.

### **Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

### **Exposure to credit risk**

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

|                           | Note | Consolidated    |         |
|---------------------------|------|-----------------|---------|
|                           |      | Carrying amount |         |
|                           |      | 2011            | 2010    |
|                           |      | \$'000          | \$'000  |
| Trade receivables         | 17   | 87,963          | 91,723  |
| Other receivables         | 17   | 7,453           | 5,256   |
| Cash and cash equivalents | 16   | 5,502           | 5,239   |
|                           |      | 100,918         | 102,218 |

## **5 Financial risk management (continued)**

### **Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. The Group sets individual counter party limits and where possible insures its rental income within Australia, Indonesia and Canada, and generally operates on a "cash for keys" policy within its Sales business.

Both insured and uninsured debtors are subject to the Group's credit policy. The Group's credit policy requires each new customer to be analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer according to the external rating and is approved by the appropriate management level dependent on the size of the limit. In the instance that a customer fails to meet the Group's credit worthiness, and the Group is unable to secure credit insurance, future transactions with the customer will only be on a prepayment basis, or appropriate security such as a bank guarantee or letter of credit.

Where commercially available the Group aims to insure the majority of rental customers that are not considered either blue chip customers, subsidiaries of blue chip companies or Government. Blue chip customers are determined as those customers who have a market capitalisation of greater than \$750 million (2010: \$750 million).

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures. The specific loss component is made up of the insurance excess for insured debts that have been classified as doubtful and uninsured customers that are classified as doubtful. As at 30 June 2011 the Group had impairment for doubtful debts of \$12.2 million. Included in this impairment is an amount of \$9.8 million (pre-tax) relating to one customer in the Indonesian business. This impairment includes dry-hire rental, repairs and maintenance and demobilisation charges not recovered.

As at 30 June 2011 the Group recognised bad debt write-offs for a total amount of \$1.7 million (2010: \$5.8 million) in Australia and Canada of \$1.1 million and \$0.4 million respectively. Bad debts of \$0.2 million are recognised in discontinued operations in USA and Australia of \$0.1 million and \$0.1 million respectively. The bad debts recognised during the year relate to a small number of customers in Australia and Canada that were unable to pay their outstanding balances due to economic circumstances. The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historic payment behaviour and extensive analyses of the underlying customers' credit ratings.

The Group held cash and cash equivalents of \$5.5 million at 30 June 2011 (2010: \$5.2 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties which are rated greater than AA-.

## 5 Financial risk management (continued)

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

|               | Consolidated    |                |
|---------------|-----------------|----------------|
|               | Carrying amount |                |
|               | 2011<br>\$'000  | 2010<br>\$'000 |
| Australia     | 57,609          | 55,404         |
| Asia          | 22,049          | 19,251         |
| North America | 8,305           | 13,414         |
| Europe        | -               | 3,252          |
| Africa        | -               | 402            |
|               | 87,963          | 91,723         |

The Group's maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

|                                    | Consolidated    |                |
|------------------------------------|-----------------|----------------|
|                                    | Carrying amount |                |
|                                    | 2011<br>\$'000  | 2010<br>\$'000 |
| Insured                            | 41,137          | 40,700         |
| Blue Chip (including subsidiaries) | 17,176          | 13,827         |
| Other security                     | 2,810           | 9,197          |
| Uninsured                          | 26,840          | 27,999         |
|                                    | 87,963          | 91,723         |

The aging of the Group's trade receivables at the reporting date was:

|                     | Consolidated   |                | Consolidated   |                |
|---------------------|----------------|----------------|----------------|----------------|
|                     | Gross          | Impairment     | Gross          | Impairment     |
|                     | 2011<br>\$'000 | 2011<br>\$'000 | 2010<br>\$'000 | 2010<br>\$'000 |
| Not past due        | 42,385         | (444)          | 44,879         | (1,830)        |
| Past due 0-30 days  | 21,196         | (46)           | 24,405         | (1)            |
| Past due 31-60 days | 6,707          | (565)          | 3,853          | (47)           |
| Past due 61 days    | 17,675         | (11,110)       | 18,586         | (4,774)        |
|                     | 87,963         | (12,165)       | 91,723         | (6,652)        |

## 5 Financial risk management (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

|                           | Consolidated   |                |
|---------------------------|----------------|----------------|
|                           | 2011<br>\$'000 | 2010<br>\$'000 |
| Balance at 1 July         | 6,652          | 8,816          |
| Bad debt written off      | (1,664)        | (5,787)        |
| Doubtful debt recognised  | 10,677         | 4,348          |
| Reversal of doubtful debt | (3,500)        | (725)          |
| Balance at 30 June        | 12,165         | 6,652          |

### Collateral

Collateral is held for customers that are assessed to be a higher risk. At 30 June 2011 the Group held \$2.7 million of bank guarantees and \$0.1 million of prepayments.

### Guarantees

Financial guarantees are generally only provided to wholly-owned subsidiaries or when entering into a premise rental agreement. Details of outstanding guarantees are provided in note 29. At 30 June 2011 \$342,500 guarantees were outstanding (2010: \$342,500).

## **5 Financial risk management (continued)**

### **Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors working capital limits and employs maintenance planning and life cycle costing models to price its rental contracts. These processes assist it in monitoring cash flow requirements and optimising cash return in its operations. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The Group's syndicated senior debt facility ("debt facility") matures on 5 November 2013. The facility comprises a three year \$300.0 million tranche which matures on 5 November 2013 and a five year \$150.0 million tranche which matures on 5 November 2015. The senior debt facility is a revolver and also comprises one year revolving \$26.9 million (2010: \$33.4 million) working capital facility. At year end the debt facilities had not utilised \$198.9 million.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

| <b>Consolidated<br/>30 June 2011</b>                   | <b>Carrying<br/>amount<br/>\$'000</b> | <b>Contract-<br/>ual cash<br/>flows<br/>\$'000</b> | <b>6 mths or<br/>less<br/>\$'000</b> | <b>6-12 mths<br/>\$'000</b> | <b>1-2 years<br/>\$'000</b> | <b>2-5 years<br/>\$'000</b> | <b>More than<br/>5 years<br/>\$'000</b> |
|--------------------------------------------------------|---------------------------------------|----------------------------------------------------|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------------------|
| <b>Non-derivative financial liabilities</b>            |                                       |                                                    |                                      |                             |                             |                             |                                         |
| Secured bank loans                                     | (278,000)                             | (292,089)                                          | (7,045)                              | (7,045)                     | (14,090)                    | (263,909)                   | -                                       |
| Finance lease liabilities                              | (19,005)                              | (22,621)                                           | (2,383)                              | (2,181)                     | (4,362)                     | (13,695)                    | -                                       |
| Trade and other payables <sup>(1)</sup>                | (42,694)                              | (42,694)                                           | (42,694)                             | -                           | -                           | -                           | -                                       |
|                                                        | <u>(339,699)</u>                      | <u>(357,404)</u>                                   | <u>(52,122)</u>                      | <u>(9,226)</u>              | <u>(18,452)</u>             | <u>(277,604)</u>            | <u>-</u>                                |
| <b>Derivative financial liabilities</b>                |                                       |                                                    |                                      |                             |                             |                             |                                         |
| Interest rate swaps used for hedging asset/(liability) | (5,981)                               | (6,132)                                            | (2,353)                              | (1,191)                     | (2,135)                     | (453)                       | -                                       |
| Forward exchange contracts used for hedging:           |                                       |                                                    |                                      |                             |                             |                             |                                         |
| Outflow                                                | 285                                   | (12,057)                                           | (12,057)                             | -                           | -                           | -                           | -                                       |
| Inflow                                                 | (7)                                   | 11,780                                             | 11,780                               | -                           | -                           | -                           | -                                       |
|                                                        | <u>(5,703)</u>                        | <u>(6,409)</u>                                     | <u>(2,630)</u>                       | <u>(1,191)</u>              | <u>(2,135)</u>              | <u>(453)</u>                | <u>-</u>                                |

<sup>(1)</sup> Excludes derivatives (shown separately)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

5 Financial risk management (continued)

| Consolidated<br>30 June 2010                              | Carrying<br>amount<br>\$'000 | Contract-<br>ual cash<br>flows<br>\$'000 | 6 mths or<br>less<br>\$'000 | 6-12 mths<br>\$'000 | 1-2 years<br>\$'000 | 2-5 years<br>\$'000 | More than<br>5 years<br>\$'000 |
|-----------------------------------------------------------|------------------------------|------------------------------------------|-----------------------------|---------------------|---------------------|---------------------|--------------------------------|
| <b>Non-derivative financial liabilities</b>               |                              |                                          |                             |                     |                     |                     |                                |
| Secured bank loans                                        | (300,009)                    | (311,198)                                | (34,556)                    | (5,536)             | (271,106)           | -                   | -                              |
| Finance lease liabilities                                 | (5,463)                      | (5,548)                                  | (2,659)                     | (2,628)             | (261)               | -                   | -                              |
| Trade and other payables <sup>(1)</sup>                   | (36,684)                     | (36,684)                                 | (36,577)                    | (107)               | -                   | -                   | -                              |
|                                                           | <u>(342,156)</u>             | <u>(353,430)</u>                         | <u>(73,792)</u>             | <u>(8,271)</u>      | <u>(271,367)</u>    | <u>-</u>            | <u>-</u>                       |
| <b>Derivative financial liabilities</b>                   |                              |                                          |                             |                     |                     |                     |                                |
| Interest rate swaps used<br>for hedging asset/(liability) | (13,187)                     | (13,497)                                 | (5,395)                     | (2,441)             | (3,521)             | (2,140)             | -                              |
| Forward exchange<br>contracts used for hedging:           |                              |                                          |                             |                     |                     |                     |                                |
| Outflow                                                   | (1,033)                      | (41,728)                                 | (41,728)                    | -                   | -                   | -                   | -                              |
| Inflow                                                    | (18)                         | 42,780                                   | 42,780                      | -                   | -                   | -                   | -                              |
|                                                           | <u>(14,238)</u>              | <u>(12,445)</u>                          | <u>(4,343)</u>              | <u>(2,441)</u>      | <u>(3,521)</u>      | <u>(2,140)</u>      | <u>-</u>                       |

<sup>(1)</sup> Excludes derivatives (shown separately)

## **5 Financial risk management (continued)**

### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group enters into derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Group's hedging policy. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

### **Currency risk**

The Group is exposed to currency risk on revenue, expenditure, assets and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar ("AUD"), but also the United States Dollars ("USD"), Canadian Dollars ("CAD"), and Euro Dollars ("EURO"). The currencies in which these transactions primarily are denominated are AUD, USD, CAD, EURO and Japanese Yen ("YEN").

The Group hedges all trade receivables and trade payables that are denominated in a currency that is foreign to its functional currency, and greater than \$50,000. The Group uses forward exchange contracts to hedge this currency risk. Most of the forward exchange contracts have maturities of less than 6 months.

In respect of other monetary assets and liabilities held in currencies other than the AUD, the Group ensures that the net exposure is kept to an acceptable level by matching foreign denominated financial assets with matching financial liabilities and vice versa.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily AUD, but also USD, CAD and EURO. This provides an economic hedge without derivatives being entered into and therefore no application of hedge accounting.

The Group's investments in its subsidiaries and their earnings for the year are not hedged as these currency positions are considered long term in nature.

The Group's foreign denominated debt is not hedged to manage the risk of breaching its facility limit of \$450.0 million as the Group considers there to be appropriate headroom for any adverse movement in exchange rates (refer note 24).

### **Exposure to currency risk**

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

|                               | 30 June 2011  |               |               |               | 30 June 2010  |               |               |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                               | AUD<br>\$'000 | USD<br>\$'000 | YEN<br>\$'000 | EUR<br>\$'000 | AUD<br>\$'000 | USD<br>\$'000 | YEN<br>\$'000 |
| Trade receivables             | -             | -             | -             | -             | -             | 517           | -             |
| Trade payables <sup>(1)</sup> | -             | -             | -             | -             | -             | -             | (2,074)       |
| Gross balance sheet exposure  | -             | -             | -             | -             | -             | 517           | (2,074)       |
| Forward exchange contracts    | -             | -             | -             | -             | -             | (517)         | 2,074         |
| Net exposure                  | -             | -             | -             | -             | -             | -             | -             |

<sup>(1)</sup> Trade payables does not include future purchase commitments denominated in foreign currencies. The Group hedges these purchases in accordance with its hedging policy. The payable is not recognised until the asset is received. The fair value of outstanding derivatives are recognised in the balance sheet at period end.

## 5 Financial risk management (continued)

The following significant exchange rates applied during the year:

|      | Average rate |        | Reporting date spot rate |        |
|------|--------------|--------|--------------------------|--------|
|      | 2011         | 2010   | 2011                     | 2010   |
| CAD  | 0.9879       | 0.9303 | 1.0367                   | 0.8962 |
| USD  | 0.9872       | 0.8816 | 1.0724                   | 0.8538 |
| EURO | 0.7239       | 0.6350 | 0.7401                   | 0.6982 |
| IDR  | 8,731        | 8,325  | 9,198                    | 7,727  |

### Sensitivity analysis – financial instruments

A strengthening of the Australian dollar, as indicated below, against the following currencies at 30 June 2011 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010, as indicated below:

|                                 | Consolidated     |                          |
|---------------------------------|------------------|--------------------------|
|                                 | Equity<br>\$'000 | Profit or loss<br>\$'000 |
| <b>30 June 2011</b>             |                  |                          |
| USD (10 percent strengthening)  | (557)            | -                        |
| EURO (10 percent strengthening) | (45)             | -                        |
| YEN (10 percent strengthening)  | (136)            | -                        |
| CAD (10 percent strengthening)  | (294)            | -                        |
| <b>30 June 2010</b>             |                  |                          |
| USD (10 percent strengthening)  | (2,410)          | (104)                    |
| EURO (10 percent strengthening) | (149)            | -                        |
| YEN (10 percent strengthening)  | (132)            | -                        |
| CAD (10 percent strengthening)  | (439)            | -                        |

## 5 Financial risk management (continued)

### Sensitivity analysis – financial instruments (continued)

A weakening of the Australian dollar against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### Interest rate risk

In accordance with the Board's policy the Group is required to maintain a range between a maximum of 70% and a minimum of 30% of its exposure to changes in interest rates on borrowings on a fixed rate basis, taking into account assets with exposure to changes in interest rates for an average tenure of no less than 2 years into the future. This is typically achieved by entering into interest rate swaps.

### Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

|                                                                          | Note | Consolidated   |                |
|--------------------------------------------------------------------------|------|----------------|----------------|
|                                                                          |      | 2011<br>\$'000 | 2010<br>\$'000 |
| Cash at bank                                                             | 16   | 5,502          | 5,239          |
| Variable interest bearing liabilities                                    |      | 278,000        | 300,009        |
| Variable interest bearing finance leases                                 |      | 19,005         | 5,463          |
| Total interest bearing liabilities                                       | 24   | 297,005        | 305,472        |
| <b>Effective interest rate swaps to hedge interest rate risk</b>         |      |                |                |
| Australian dollars                                                       |      | 70,000         | 70,000         |
| Canadian dollars C\$80M (2010: C\$80M)                                   |      | 77,168         | 89,266         |
| United States dollars USD\$15M (2010: USD\$15M) <sup>(1)</sup>           |      | 13,987         | 17,568         |
|                                                                          |      | 161,155        | 176,834        |
| The interest rate swaps principle amount expiring over the next 5 years: |      |                |                |
| No later than one year                                                   |      | 83,987         | -              |
| Later than one year but not later than two                               |      | 38,584         | 87,568         |
| Later than two years but not later than three                            |      | 38,584         | 44,633         |
| Later than three years but not later than four                           |      | -              | 44,633         |
| Later than four years but not later than five                            |      | -              | -              |
|                                                                          |      | 161,155        | 176,834        |

<sup>(1)</sup> At 30 June 2010 the Group had a USD\$10 million and USD\$15 million swap which was considered ineffective due to the forecast repayments of USD denominated debt to below the level of the swaps and are not included above.

## 5 Financial risk management (continued)

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

|                             | Profit or loss    |                   | Equity            |                   |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|
|                             | 100bp<br>increase | 100bp<br>decrease | 100pb<br>increase | 100pb<br>decrease |
|                             | \$'000            | \$'000            | \$'000            | \$'000            |
| <b>30 June 2011</b>         |                   |                   |                   |                   |
| Cash flow sensitivity (net) | -                 | -                 | 2,746             | (2,746)           |
| <b>30 June 2010</b>         |                   |                   |                   |                   |
| Cash flow sensitivity (net) | 431               | (431)             | 2,766             | (2,766)           |

### Fair values

#### Interest rates used for determining fair value

The range of interest rates used to discount estimated cash flows, when applicable, are based on the Government yield curve at the reporting date plus an adequate credit spread, and were as follows:

|                      | 2011 |   |      | 2010 |   |      |
|----------------------|------|---|------|------|---|------|
| Derivatives          | 0.2% | - | 5.2% | 1.0% | - | 6.0% |
| Loans and borrowings | 1.6% | - | 7.2% | 2.0% | - | 7.0% |
| Leases               | 0.3% | - | 7.2% | 0.0% | - | 1.0% |

The Group has not identified other market price risks that it considers it is materially exposed to, other than those identified.

## 5 Financial risk management (continued)

### Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

|                                              | Note | 30 June 2011 |           | 30 June 2010 |           |
|----------------------------------------------|------|--------------|-----------|--------------|-----------|
|                                              |      | Carrying     | Fair      | Carrying     | Fair      |
|                                              |      | Amount       | Value     | Amount       | Value     |
|                                              |      | \$'000       | \$'000    | \$'000       | \$'000    |
| <b>Assets carried at fair value</b>          |      |              |           |              |           |
| Forward exchange contracts used for hedging  |      | 285          | 285       | 1,033        | 1,033     |
|                                              |      | 285          | 285       | 1,033        | 1,033     |
| <b>Assets carried at amortised cost</b>      |      |              |           |              |           |
| Receivables                                  | 17   | 83,251       | 83,251    | 90,327       | 90,327    |
| Cash and cash equivalents                    | 16   | 5,502        | 5,502     | 5,239        | 5,239     |
|                                              |      | 88,753       | 88,753    | 95,566       | 95,566    |
| <b>Liabilities carried at fair value</b>     |      |              |           |              |           |
| Interest rate swaps used for hedging         |      | (5,981)      | (5,981)   | (13,187)     | (13,187)  |
| Forward exchange contracts used for hedging  |      | (7)          | (7)       | (18)         | (18)      |
|                                              |      | (5,988)      | (5,988)   | (13,205)     | (13,205)  |
| <b>Liabilities carried at amortised cost</b> |      |              |           |              |           |
| Secured bank loans                           | 23   | (278,000)    | (274,798) | (300,009)    | (298,632) |
| Finance lease liabilities                    | 23   | (19,005)     | (22,627)  | (5,463)      | (5,548)   |
| Trade and other payables <sup>(1)</sup>      | 22   | (42,694)     | (42,694)  | (36,499)     | (36,499)  |
|                                              |      | (339,699)    | (340,119) | (341,971)    | (340,679) |

<sup>(1)</sup> Excludes derivatives (shown separately)

The basis for determining fair values is disclosed in note 4.

### Fair value hierarchy

All the Group's financial instruments carried at fair value would be categorised at level 2 in the fair value hierarchy as their value is based on inputs other than the quoted prices that are observable for these assets/(liabilities), either directly or indirectly.

The Group's only financial instruments carried at fair value, by valuation method are the interest rate swaps and forward foreign exchange contracts used for hedging, as set out in the table above.

## **5 Financial risk management (continued)**

### **Capital management**

Underpinning Emeco's strategic framework is consistent value creation for shareholders. Central to this is the continual evaluation of the Company's capital structure to ensure it is optimised to deliver value to shareholders. The Board's policy is to maintain diversified, long-term sources of funding to maintain investor, creditor and market confidence and to support the future growth of the business. This policy is being achieved through optimising the mix of debt and equity to match the Company's requirements and through a blended maturity profile of employing a mixture of 3 year and 5 year tranches with a syndicate of investment grade financial institutions. The Board of Directors also evaluates and monitors the level of capital returns to ordinary shareholders in the form of dividends or other capital initiatives.

The Board seeks to maintain a balance between higher returns possible with higher levels of borrowings and the security afforded by a sound capital position. Throughout the year the Group monitors its gearing ratio determined as total debt over the last twelve months divided by normalised EBITDA. The gearing ratio is kept at a level of less than 3.0 times as defined by the Company's banking covenant. During the year the gearing ratio remained within the range of 1.2 times to 1.6 times.

The Company's primary return metric is return on capital ("ROC"), which the Group defines as earnings before interest and tax ("EBIT") divided by Invested Capital defined as the average over the period of equity, plus interest bearing liabilities, less cash and cash equivalents. The Group's ROC for the year was 10.3% (2010: (1.1%)). This includes significant items of \$4.6 million (after tax) (2010: \$95.0 million) as a result of \$0.4 million loss from discontinued operations and \$6.0 million debtor impairment in Indonesia. Had the significant items not been included the Group EBIT return on capital for the year would have been 11.3% (2010: 8.3%).

The Group's return on invested capital at the end of the reporting period was as follows:

|                                                   | Consolidated   |                |
|---------------------------------------------------|----------------|----------------|
|                                                   | 2011<br>\$'000 | 2010<br>\$'000 |
| EBIT (for continuing and discontinued operations) | 92,348         | (11,432)       |
| Average invested capital                          | 896,856        | 1,005,399      |
| EBIT return on capital at 30 June                 | 10.3%          | (1.1%)         |

In order to satisfy potential future obligations under its employee share plans the Group purchases, via an employee share trust, its own shares on market. The quantum of these purchases depends on the number of securities that have been issued under its employee share plans. The purchase of shares by the employee share trust is done on a periodic basis by Emeco's share registry service provider acting as agent for the trustee of the employee share trust. The Group does not have a defined share buy-back plan.

There have been no changes to externally imposed capital restrictions or the Board's approach to capital management during the year other than referred to above.

## 6 Other income

|                                                         | Consolidated   |                |
|---------------------------------------------------------|----------------|----------------|
|                                                         | 2011<br>\$'000 | 2010<br>\$'000 |
| Net profit on sale of non current assets <sup>(1)</sup> | 2,756          | 2,913          |
| Sundry income <sup>(2)</sup>                            | 4,455          | 2,112          |
|                                                         | 7,211          | 5,025          |

<sup>(1)</sup> Included in net profit on the sale of non current assets is the sale of rental equipment which occurs in the ordinary course of business.

<sup>(2)</sup> Included in sundry income are fees charged on overdue accounts, bad debts recovered, procurement fees on machines sourced for 3<sup>rd</sup> parties and insurance receivables. During FY11 the Indonesian business impaired \$3.3 million of equipment which was damaged while being demobilised from a customer's site (refer note 21). The Company also recognised a provision of \$1.4 million relating to the cost of salvaging the damaged equipment (refer note 25). Included in sundry income is \$4.2 million representing the insurance proceeds recoverable in relation to this incident.



**Emeco Holdings Limited and its Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

**7 Profit before income tax expense for continuing operations**

|                                                                                                             | Note | Consolidated   |                |
|-------------------------------------------------------------------------------------------------------------|------|----------------|----------------|
|                                                                                                             |      | 2011<br>\$'000 | 2010<br>\$'000 |
| Profit before income tax expense<br>has been arrived at after charging/<br>(crediting) the following items: |      |                |                |
| Cost of sale of machines and parts                                                                          |      | 69,432         | 72,010         |
| Cost of sales inventory on rent                                                                             |      | 1,579          | 4,560          |
| Impairment of tangible assets:                                                                              |      |                |                |
| - inventory                                                                                                 |      | 841            | 4,525          |
| - property, plant and equipment                                                                             |      | 2,931          | 9,268          |
|                                                                                                             |      | 3,772          | 13,793         |
| Employee expenses:                                                                                          |      |                |                |
| - superannuation                                                                                            |      | 3,036          | 2,766          |
| Other expenses:                                                                                             |      |                |                |
| - bad debts                                                                                                 |      | 1,506          | 2,607          |
| - doubtful debts/(reversal)                                                                                 |      | 9,762          | (1,423)        |
| - insurance                                                                                                 |      | 3,074          | 3,137          |
| - motor vehicles                                                                                            |      | 4,616          | 4,289          |
| - rental expense                                                                                            |      | 3,209          | 3,685          |
| - safety                                                                                                    |      | 1,199          | 1,235          |
| - travel and subsistence expense                                                                            |      | 2,367          | 2,420          |
| - telecommunications                                                                                        |      | 1,726          | 1,668          |
| - workshop consumables, tooling and labour                                                                  |      | 3,639          | 3,342          |
| - other expenses                                                                                            |      | 11,100         | 2,844          |
|                                                                                                             |      | 42,198         | 23,804         |
| Depreciation of:                                                                                            |      |                |                |
| - buildings                                                                                                 |      | 1,172          | 839            |
| - plant and equipment - owned                                                                               |      | 112,676        | 93,050         |
| - plant and equipment - leased                                                                              |      | 4,311          | 1,014          |
| - furniture fittings and fixtures                                                                           |      | 119            | 141            |
| - office equipment                                                                                          |      | 379            | 463            |
| - motor vehicles                                                                                            |      | 1,087          | 845            |
| - leasehold improvements                                                                                    |      | 449            | 446            |
| - sundry plant                                                                                              |      | 1,722          | 1,977          |
|                                                                                                             |      | 121,915        | 98,775         |
| Amortisation of:                                                                                            |      |                |                |
| - contract intangible                                                                                       |      | -              | 24             |
| - other intangibles                                                                                         |      | 258            | 271            |
|                                                                                                             |      | 258            | 295            |
| Impairment of goodwill                                                                                      | 20   | -              | 20,105         |
| Total depreciation, amortisation and<br>impairment of goodwill                                              |      | 122,173        | 119,175        |



## 7 Profit before income tax expense for continuing operations (continued)

|                                                           | Consolidated   |                |
|-----------------------------------------------------------|----------------|----------------|
|                                                           | 2011<br>\$'000 | 2010<br>\$'000 |
| Financial expenses:                                       |                |                |
| - interest expense                                        | 19,105         | 18,099         |
| - ineffective hedge expense/(reversal)                    | (392)          | 1,604          |
| - amortisation of debt establishment costs <sup>(1)</sup> | 2,066          | 1,233          |
| - other facility costs                                    | 2,461          | 1,946          |
|                                                           | 23,240         | 22,882         |
| Financial income:                                         |                |                |
| - interest revenue                                        | (281)          | (157)          |
| Net financial expenses                                    | 22,959         | 22,725         |
| Net foreign exchange (gain)/loss                          | 186            | (818)          |

<sup>(1)</sup> Includes \$0.8 million expensed relating to the previous debt facility in FY11.

## 8 Auditor's remuneration

|                                         | Consolidated |            |
|-----------------------------------------|--------------|------------|
|                                         | 2011<br>\$   | 2010<br>\$ |
| <b>Audit services</b>                   |              |            |
| Auditors of the Company                 |              |            |
| <i>KPMG Australia:</i>                  |              |            |
| - audit and review of financial reports | 426,000      | 404,308    |
| <i>Overseas KPMG Firms:</i>             |              |            |
| - audit and review of financial reports | 185,682      | 260,930    |
|                                         | 611,682      | 665,238    |
| <b>Other services</b>                   |              |            |
| Auditors of the Company                 |              |            |
| <i>KPMG Australia:</i>                  |              |            |
| - other assurance services              | -            | 13,934     |
| - taxation services                     | 86,060       | 65,410     |
| <i>Overseas KPMG Firms:</i>             |              |            |
| - taxation services                     | 78,162       | 60,957     |
| - accounting assistance                 | 39,587       | 20,813     |
|                                         | 203,809      | 161,114    |
|                                         | 815,491      | 826,352    |



## 9 Income tax expense

### (a) Recognition in the income statement

|                                                                           | Note | Consolidated   |                |
|---------------------------------------------------------------------------|------|----------------|----------------|
|                                                                           |      | 2011<br>\$'000 | 2010<br>\$'000 |
| Current tax expense:                                                      |      |                |                |
| Current year                                                              |      | 23,087         | 13,691         |
| Adjustments for prior years                                               |      | (514)          | (328)          |
|                                                                           |      | 22,573         | 13,363         |
| Deferred tax expenses:                                                    |      |                |                |
| Origination and reversal of temporary differences                         |      | (2,391)        | 270            |
| Reduction in tax rate                                                     |      | (455)          | (430)          |
| Adjustment for prior years                                                |      | -              | -              |
|                                                                           | 11   | (2,846)        | (160)          |
| Income tax expense                                                        |      | 19,727         | 13,203         |
| Income tax expense from continuing operations                             |      | 20,273         | 13,485         |
| Income tax expense/(benefit) from discontinuing operations                | 13   | (473)          | (282)          |
| Income tax expense/(benefit) from loss on sale of discontinued operations | 13   | (73)           | -              |
| Total income tax expense                                                  |      | 19,727         | 13,203         |

### (b) Current and deferred tax expense recognised directly in equity

|                       | Consolidated   |                |
|-----------------------|----------------|----------------|
|                       | 2011<br>\$'000 | 2010<br>\$'000 |
| Share purchase costs  | 2,054          | -              |
| Capital raising costs | 1,380          | 1,404          |
|                       | 3,434          | 1,404          |

### Income tax recognised in other comprehensive income

|                                                                 | Consolidated<br>2011<br>Tax |                                |                         | Consolidated<br>2010<br>Tax |                                |                         |
|-----------------------------------------------------------------|-----------------------------|--------------------------------|-------------------------|-----------------------------|--------------------------------|-------------------------|
|                                                                 | Before<br>Tax<br>\$'000     | (expense)<br>benefit<br>\$'000 | Net of<br>tax<br>\$'000 | Before<br>Tax<br>\$'000     | (expense)<br>benefit<br>\$'000 | Net of<br>tax<br>\$'000 |
| Foreign currency translation differences for foreign operations | (16,978)                    | -                              | (16,978)                | (5,473)                     | -                              | (5,473)                 |
| FCTR of discontinued operations disposed <sup>(1)</sup>         | 420                         | -                              | 420                     | 5,371                       | -                              | 5,371                   |
| Cash flow hedges                                                | 5,648                       | (2,389)                        | 3,259                   | 3,290                       | (1,150)                        | 2,140                   |
|                                                                 | (10,910)                    | (2,389)                        | (13,299)                | 3,188                       | (1,150)                        | 2,038                   |

<sup>(1)</sup> FCTR – transfer of Foreign Currency Translation Reserve (FCTR) from equity reserve to profit upon foreign operations of the Group being disposed.

## 9 Income tax expense (continued)

### (c) Numerical reconciliation between tax expense and pre tax net profit/(loss):

|                                                                    | Consolidated   |                |
|--------------------------------------------------------------------|----------------|----------------|
|                                                                    | 2011<br>\$'000 | 2010<br>\$'000 |
| Prima facie income tax expense calculated at 30% on net profit     | 21,129         | (10,833)       |
| Increase/(decrease) in income tax expense due to:                  |                |                |
| Effect on tax rate in foreign jurisdictions                        | (658)          | (255)          |
| Share based payments                                               | -              | 270            |
| Current year losses for which no deferred tax asset was recognised | (380)          | 13,260         |
| Impairment of goodwill                                             | -              | 11,085         |
| Reduction in tax rate in foreign jurisdictions                     | (455)          | (430)          |
| Tax - investment allowance                                         | -              | (191)          |
| Sundry                                                             | 605            | 625            |
| Under/(over) provided in prior years                               | (514)          | (328)          |
| Income tax expense/(benefit)                                       | 19,727         | 13,203         |

## 10 Current tax assets and liabilities

The current tax asset for the Group of \$427,000 (2010: \$656,000) represents income taxes and withholding tax recoverable in respect of prior periods and that arise from payment of taxes in excess of the amount due to the relevant tax authority. The current tax liability for the Group of \$6,790,000 (2010: \$5,858,000) represents the amount of income taxes payable in respect of current and prior financial periods.

## 11 Deferred tax assets and liabilities

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| Consolidated                          | Assets         |                | Liabilities    |                | Net            |                |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                       | 2011<br>\$'000 | 2010<br>\$'000 | 2011<br>\$'000 | 2010<br>\$'000 | 2011<br>\$'000 | 2010<br>\$'000 |
| Property, plant and equipment         | (6,892)        | (276)          | 40,534         | 38,204         | 33,642         | 37,928         |
| Intangible assets                     | (17)           | -              | -              | 13             | (17)           | 13             |
| Receivables                           | (4,386)        | (3,558)        | 1,424          | 23             | (2,962)        | (3,535)        |
| Inventories                           | (103)          | (93)           | 1,244          | 1,661          | 1,141          | 1,568          |
| Payables                              | (3,871)        | (3,742)        | 11             | -              | (3,860)        | (3,742)        |
| Derivatives                           | (1,794)        | (4,216)        | 85             | -              | (1,709)        | (4,216)        |
| Interest-bearing loans and borrowings | (19)           | -              | 4,170          | 2,166          | 4,151          | 2,166          |
| Employee benefits                     | (1,525)        | (1,490)        | -              | -              | (1,525)        | (1,490)        |
| Equity - capital raising costs        | (30)           | (1,416)        | -              | -              | (30)           | (1,416)        |
| Provisions                            | (2,871)        | (43)           | -              | -              | (2,871)        | (43)           |
| Tax losses carried forward            | (2,017)        | (4,213)        | -              | -              | (2,017)        | (4,213)        |
| Tax (assets)/liabilities              | (23,525)       | (19,047)       | 47,468         | 42,067         | 23,943         | 23,020         |
| Set off of tax                        | 23,525         | 19,047         | (23,525)       | (19,047)       | -              | -              |
| Net tax (assets)/liabilities          | -              | -              | 23,943         | 23,020         | 23,943         | 23,020         |

### Movement in temporary differences during the year

|                                       | Consolidated                   |                                              |                                               |                                                             |                                 |
|---------------------------------------|--------------------------------|----------------------------------------------|-----------------------------------------------|-------------------------------------------------------------|---------------------------------|
|                                       | Balance<br>1 July 09<br>\$'000 | Recognised<br>in profit<br>or loss<br>\$'000 | Recognised<br>directly<br>in equity<br>\$'000 | Recognised<br>in other<br>comprehensive<br>income<br>\$'000 | Balance<br>30 June 10<br>\$'000 |
| Property, plant and equipment         | 33,073                         | 4,855                                        | -                                             | -                                                           | 37,928                          |
| Intangible assets                     | 7                              | 6                                            | -                                             | -                                                           | 13                              |
| Receivables                           | (2,789)                        | (746)                                        | -                                             | -                                                           | (3,535)                         |
| Inventories                           | 1,747                          | (179)                                        | -                                             | -                                                           | 1,568                           |
| Payables                              | (1,405)                        | (2,337)                                      | -                                             | -                                                           | (3,742)                         |
| Derivatives                           | (4,885)                        | (481)                                        | -                                             | 1,150                                                       | (4,216)                         |
| Interest-bearing loans and borrowings | 177                            | 1,989                                        | -                                             | -                                                           | 2,166                           |
| Employee benefits                     | (1,759)                        | 269                                          | -                                             | -                                                           | (1,490)                         |
| Equity - capital raising costs        | (2,820)                        | -                                            | 1,404                                         | -                                                           | (1,416)                         |
| Provisions                            | (23)                           | (20)                                         | -                                             | -                                                           | (43)                            |
| Tax losses carried forward            | (697)                          | (3,516)                                      | -                                             | -                                                           | (4,213)                         |
|                                       | 20,626                         | (160)                                        | 1,404                                         | 1,150                                                       | 23,020                          |

## 11 Deferred tax assets and liabilities (continued)

### Movement in temporary differences during the year

|                                       | Consolidated                   |                                              |                                               |                                                             |                                 |
|---------------------------------------|--------------------------------|----------------------------------------------|-----------------------------------------------|-------------------------------------------------------------|---------------------------------|
|                                       | Balance<br>1 July 10<br>\$'000 | Recognised<br>in profit<br>or loss<br>\$'000 | Recognised<br>directly<br>in equity<br>\$'000 | Recognised<br>in other<br>comprehensive<br>income<br>\$'000 | Balance<br>30 June 11<br>\$'000 |
| Property, plant and equipment         | 37,928                         | (4,286)                                      | -                                             | -                                                           | 33,642                          |
| Intangible assets                     | 13                             | (30)                                         | -                                             | -                                                           | (17)                            |
| Receivables                           | (3,535)                        | 573                                          | -                                             | -                                                           | (2,962)                         |
| Inventories                           | 1,568                          | (427)                                        | -                                             | -                                                           | 1,141                           |
| Payables                              | (3,742)                        | (118)                                        | -                                             | -                                                           | (3,860)                         |
| Derivatives                           | (4,216)                        | 118                                          | -                                             | 2,389                                                       | (1,709)                         |
| Interest-bearing loans and borrowings | 2,166                          | 1,985                                        | -                                             | -                                                           | 4,151                           |
| Employee benefits                     | (1,490)                        | (35)                                         | -                                             | -                                                           | (1,525)                         |
| Equity - capital raising costs        | (1,416)                        | 6                                            | 1,380                                         | -                                                           | (30)                            |
| Provisions                            | (43)                           | (2,828)                                      | -                                             | -                                                           | (2,871)                         |
| Tax losses carried forward            | (4,213)                        | 2,196                                        | -                                             | -                                                           | (2,017)                         |
|                                       | 23,020                         | (2,846)                                      | 1,380                                         | 2,389                                                       | 23,943                          |

|                                                                               | Consolidated   |                |
|-------------------------------------------------------------------------------|----------------|----------------|
|                                                                               | 2011<br>\$'000 | 2010<br>\$'000 |
| The following deferred tax assets have not been brought to account as assets: |                |                |
| Tax losses                                                                    | 16,486         | 19,810         |

## 12 Dividends

(i) The following dividends were declared and paid by the Group:

|                       | Cents<br>per share | Total<br>amount<br>\$'000 | Franked/<br>unfranked | Date of<br>payment |
|-----------------------|--------------------|---------------------------|-----------------------|--------------------|
| <b>2011</b>           |                    |                           |                       |                    |
| Final 2010 ordinary   | 2.0                | 12,625                    | Franked               | 30 September 2010  |
| Interim 2011 ordinary | 2.0                | 12,625                    | Franked               | 31 March 2011      |
| Interim 2011 special  | 5.0                | 31,561                    | Franked               | 31 March 2011      |
|                       |                    | <u>56,811</u>             |                       |                    |

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

### Subsequent to 30 June 2011

After 30 June 2011 the following dividends were proposed by the Directors. The dividends have not been provided for. The declaration and subsequent payment of dividends have no income tax consequences.

|                     | Cents<br>per share | Total<br>amount<br>\$'000 | Franked/<br>unfranked | Date of<br>payment |
|---------------------|--------------------|---------------------------|-----------------------|--------------------|
| <b>2011</b>         |                    |                           |                       |                    |
| Final 2011 ordinary | 3.0                | 18,937                    | Franked               | 30 September 2011  |
| Total amount        |                    | <u>18,937</u>             |                       |                    |

The financial effect of these dividends has not been brought to account in the financial statements for the financial year ended 30 June 2011 and will be recognised in subsequent financial reports.

The following dividends were declared and paid by the Group in the prior year:

|                       | Cents<br>per share | Total<br>amount<br>\$'000 | Franked/<br>unfranked | Date of<br>payment |
|-----------------------|--------------------|---------------------------|-----------------------|--------------------|
| <b>2010</b>           |                    |                           |                       |                    |
| Final 2009 ordinary   | 2.0                | 12,625                    | Franked               | 30 September 2009  |
| Interim 2010 ordinary | -                  | -                         |                       |                    |
| Total amount          |                    | <u>12,625</u>             |                       |                    |



## 12 Dividends (continued)

### (ii) Franking account

|                                                                                                                                         | The Company    |                |
|-----------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                                                         | 2011<br>\$'000 | 2010<br>\$'000 |
| Dividend franking account<br>30% franking credits available to shareholders of Emeco Holdings Limited<br>for subsequent financial years | 45,625         | 56,539         |

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- (a) franking credits that will arise from the payment of current tax liabilities and recovery of current tax receivables;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the year end;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and
- (d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$8,116,000 (2010: \$5,411,000). In accordance with the tax consolidation legislation, the Company as the head entity in the Australian tax-consolidated group has also assumed the benefit of \$45,625,000 (2010: \$56,539,000) franking credits.

### 13 Discontinued operations

In February 2010 the Board resolved to close the Emeco Europe operations and decrease Emeco's presence in the USA. In June 2010 it was decided by the Board to completely exit the USA having materially disposed of all of its rental and sales assets and commenced a strategy to dispose of the Emeco USA parts business. The Board also resolved to exit the Victorian Rental business which comprised predominantly of civil rental plant and equipment (and related contracts) within its Australian business. These operations were discontinued at 30 June 2010 and the Victorian Rental business and the Emeco USA parts business were sold in October 2010 and January 2011 respectively.

|                                               | 2011<br>\$'000 | 2010<br>\$'000  |
|-----------------------------------------------|----------------|-----------------|
| <b>Losses of discontinued operations</b>      |                |                 |
| Revenue                                       | 12,984         | 56,741          |
| Other income                                  | 529            | 227             |
| Direct costs                                  | (7,651)        | (41,173)        |
| Cost of sales equipment on rent               | -              | (484)           |
| Profit/(loss) on sale of assets               | (157)          | (3,418)         |
| Writeback/(writedown) of stock                | 871            | (5,942)         |
| Impairment of fixed assets                    | (2,024)        | (9,316)         |
| Bad debts expense                             | (158)          | -               |
| Other expenses                                | (1,608)        | (8,334)         |
| Employee expenses                             | (1,101)        | (9,394)         |
| Restructure costs                             | 210            | (7,630)         |
| Impairment of goodwill                        | -              | (16,846)        |
| FCTR on discontinued operations disposed      | 420            | (5,371)         |
| Loss on sale of discontinued operations       | (424)          | -               |
| <b>EBITDA</b>                                 | <b>1,891</b>   | <b>(50,940)</b> |
| Depreciation                                  | (2,749)        | (9,002)         |
| <b>EBIT</b>                                   | <b>(858)</b>   | <b>(59,942)</b> |
| Net finance expenses                          | (53)           | (1,953)         |
| Income tax                                    | 473            | 282             |
| Income tax on sale of discontinued operations | 73             | -               |
| <b>Profit/(loss) for the period</b>           | <b>(365)</b>   | <b>(61,613)</b> |
| Earnings per share                            | (0.001)        | (0.100)         |

The loss from discontinued operation of \$365,000 (2010: loss of \$61,613,000) is attributable entirely to the owners of the Company.

|                                                         | 2011<br>\$'000 | 2010<br>\$'000 |
|---------------------------------------------------------|----------------|----------------|
| <b>Cash flows from (used in) discontinued operation</b> |                |                |
| Net cash used in operating activities                   | 3,633          | 31,725         |
| Net cash from investing activities                      | 23,840         | 13,133         |
| Net cash from financing activities                      | (27,684)       | (46,500)       |
| Net cash from (used in) discontinued operation          | (211)          | (1,642)        |

The Board's decision to close these businesses was to address the underperformance in returns being generated in these businesses and to refocus the Group's resources to align with its core rental customer base.

### 13 Discontinued operations (continued)

|                                                                  | 2011<br>\$'000 |
|------------------------------------------------------------------|----------------|
| <b>Effect of disposal on the financial position of the Group</b> |                |
| Property, plant and equipment                                    | (12,295)       |
| Inventories                                                      | (2,953)        |
| Trade and other receivables                                      | (54)           |
| Cash and cash equivalents                                        | -              |
| Deferred tax liabilities                                         | -              |
| Trade and other payables                                         | 455            |
| Net assets and liabilities                                       | (14,847)       |
| Cash received for sale of discontinued operations                | 14,423         |
| Gain/(loss) on disposal                                          | (424)          |

### 14 Non-current assets held for sale

At 30 June 2010 the parts division of the USA segment and the Victorian rental business of the Australian rental segment were presented as disposal groups held for sale following commitment from the Group in late 2010 to dispose of these segments. Efforts to sell assets of these disposal groups were undertaken with the sale of the Victorian rental business including a majority of its assets in October 2010 and the sale of the USA parts division was completed in January 2011. At 30 June 2011 the disposal groups comprised asset of \$8.7 million and liabilities \$Nil being the remaining Victorian rental assets yet to be disposed.

|                                           | 2011<br>\$'000 | 2010<br>\$'000 |
|-------------------------------------------|----------------|----------------|
| <b>Assets classified as held for sale</b> |                |                |
| Property, plant and equipment             | 8,169          | 35,989         |
| Inventories                               | -              | 1,905          |
| Trade and other receivables               | 559            | 519            |
|                                           | 8,728          | 38,413         |

|                                                | 2011<br>\$'000 | 2010<br>\$'000 |
|------------------------------------------------|----------------|----------------|
| <b>Liabilities classified as held for sale</b> |                |                |
| Trade and other payables                       | -              | 56             |
| Provisions                                     | -              | 2,140          |
|                                                | -              | 2,196          |

## **15 Segment reporting**

The Group has seven reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different operational strategies. For each of the strategic business units, the Managing Director and Board of Directors review internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

|                                                 |                                                                                                                                                                                                                                               |
|-------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Australian Rental                               | Provides a wide range of earthmoving equipment and maintenance services to customers in Australia. The Victorian Rental business was classified as a discontinued operation and a disposal group held for sale in 2010.                       |
| Australian Sales                                | Sells a wide range of earthmoving equipment to customers in the civil construction and mining industries in Australia.                                                                                                                        |
| Australian Parts                                | Procures and supplies globally sourced used and reconditioned parts to external customers and internally to the rental and sales divisions within Australia.                                                                                  |
| Indonesia                                       | Provides a wide range of earthmoving equipment and maintenance service to customers in Indonesia.                                                                                                                                             |
| Canada                                          | Provides a wide range of earthmoving equipment and maintenance services to customers who are predominately within Canada.                                                                                                                     |
| United States of America ("USA") (Discontinued) | Provided a wide range of earthmoving equipment for rental or sale, maintenance services and procurement and supply of used and reconditioned parts to customers both internal and external in the USA. This segment was discontinued in 2010. |
| Europe (Discontinued)                           | Provided a wide range of earthmoving equipment for rental or sale and maintenance service to customers in Europe. This segment was discontinued in 2010.                                                                                      |

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before interest and income tax as included in the internal management reports that are reviewed by the Group's Managing Director and Board of Directors. Segment profit before interest and income tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

**Emeco Holdings Limited and its Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

**15 Segment reporting (continued)**

**Information about reportable segments 2011**

|                                                                                     | Australian<br>Rental | Victorian<br>Rental <sup>(1)</sup><br>(discont'd) | Australian<br>Sales | Australian<br>Parts | Indonesia | Canada   | USA<br>(discont'd) | Europe<br>(discont'd) | Total     |
|-------------------------------------------------------------------------------------|----------------------|---------------------------------------------------|---------------------|---------------------|-----------|----------|--------------------|-----------------------|-----------|
|                                                                                     | \$'000               | \$'000                                            | \$'000              | \$'000              | \$'000    | \$'000   | \$'000             | \$'000                | \$'000    |
| External revenues                                                                   | 327,150              | 9,507                                             | 48,853              | 17,010              | 44,596    | 64,886   | 3,068              | 409                   | 515,479   |
| Inter-segment revenue                                                               | 2,965                | 125                                               | 3,830               | 1,367               | 4,110     | -        | 867                | -                     | 13,264    |
| Depreciation                                                                        | (87,015)             | (2,749)                                           | (456)               | (125)               | (15,730)  | (18,589) | -                  | -                     | (124,664) |
| Reportable segment profit/(loss)<br>before interest and income tax                  | 98,315               | (1,829)                                           | (260)               | 573                 | (2,665)   | 14,031   | 797                | 174                   | 109,136   |
| Other material non-cash items:                                                      |                      |                                                   |                     |                     |           |          |                    |                       |           |
| Impairment of receivables                                                           | -                    | -                                                 | -                   | -                   | (10,677)  | -        | -                  | -                     | (10,677)  |
| Impairment on property, plant and<br>equipment and intangible assets                | -                    | (2,025)                                           | -                   | -                   | (3,331)   | -        | -                  | -                     | (5,356)   |
| Reversal of impairment on property,<br>plant and equipment and intangible<br>assets | -                    | -                                                 | 400                 | -                   | -         | -        | -                  | -                     | 400       |
| Reportable segment assets                                                           | 692,443              | 9,385                                             | 26,902              | 24,730              | 77,972    | 140,076  | 303                | 3,839                 | 975,650   |
| Capital expenditure                                                                 | (126,994)            | (149)                                             | (173)               | (219)               | (19,296)  | (56,637) | -                  | -                     | (203,468) |
| Reportable segment liabilities                                                      | (54,572)             | (332)                                             | (4,664)             | (3,641)             | (8,399)   | (13,319) | (178)              | (10)                  | (85,115)  |

**Information about reportable segments 2010**

|                                                                      | Australian<br>Rental | Victorian<br>Rental <sup>(1)</sup><br>(discont'd) | Australian<br>Sales | Australian<br>Parts | Indonesia | Canada   | USA<br>(discont'd) | Europe<br>(discont'd) | Total     |
|----------------------------------------------------------------------|----------------------|---------------------------------------------------|---------------------|---------------------|-----------|----------|--------------------|-----------------------|-----------|
|                                                                      | \$'000               | \$'000                                            | \$'000              | \$'000              | \$'000    | \$'000   | \$'000             | \$'000                | \$'000    |
| External revenues                                                    | 250,948              | 19,758                                            | 52,807              | 14,070              | 49,311    | 37,823   | 23,702             | 13,281                | 461,700   |
| Inter-segment revenue                                                | 5,166                | -                                                 | 18,403              | 3,057               | 8,693     | 6,235    | 25,439             | 2,348                 | 69,341    |
| Depreciation                                                         | (68,320)             | (5,421)                                           | (675)               | (159)               | (17,694)  | (12,222) | (2,900)            | (681)                 | (108,072) |
| Reportable segment profit/(loss)<br>before interest and income tax   | 72,864               | (17,784)                                          | (20,532)            | (2,182)             | 15,793    | (4,668)  | (33,004)           | (9,154)               | 1,333     |
| Other material non-cash items:                                       |                      |                                                   |                     |                     |           |          |                    |                       |           |
| Impairment of receivables                                            | -                    | (58)                                              | -                   | -                   | (1,528)   | (435)    | (2,327)            | -                     | (4,348)   |
| Impairment on property, plant and<br>equipment and intangible assets | (274)                | (19,802)                                          | (17,268)            | (3,729)             | (309)     | (7,793)  | (5,643)            | (717)                 | (55,535)  |
| Reportable segment assets                                            | 619,911              | 36,094                                            | 54,562              | 25,295              | 115,363   | 150,689  | 4,871              | 2,730                 | 1,009,515 |
| Capital expenditure                                                  | (96,835)             | (2,881)                                           | (930)               | -                   | (16,423)  | (28,678) | (602)              | -                     | (146,349) |
| Reportable segment liabilities                                       | (42,361)             | (816)                                             | (3,729)             | (1,729)             | (17,884)  | (13,639) | (6,269)            | (1,489)               | (87,916)  |

<sup>(1)</sup> Victorian Rental forms part of Australian Rental segment but has been separated out as it was discontinued at 30 June 2010.

## 15 Segment reporting (continued)

### Reconciliation of reportable segment revenues, profit or loss, assets and liabilities and other material items

|                                                                  | 2011<br>\$'000 | 2010<br>\$'000 |
|------------------------------------------------------------------|----------------|----------------|
| <b>Revenues</b>                                                  |                |                |
| Total revenue for reportable segments                            | 528,743        | 531,041        |
| Elimination of inter-segment revenue                             | (13,264)       | (69,341)       |
| Elimination of discontinued operations                           | (12,984)       | (56,741)       |
| Consolidated revenue from continuing operations                  | 502,495        | 404,959        |
| <b>Profit or loss</b>                                            |                |                |
| Total EBIT for reportable segments                               | 109,136        | 1,333          |
| Elimination of discontinued operations                           | 858            | 59,942         |
| <i>Unallocated amounts:</i>                                      |                |                |
| Other corporate expenses                                         | (16,788)       | (12,765)       |
| Net interest expense                                             | (22,959)       | (22,725)       |
| Consolidated profit before income tax from continuing operations | 70,247         | 25,785         |
| <b>Assets</b>                                                    |                |                |
| Total assets for reportable segments                             | 975,650        | 1,009,515      |
| Unallocated assets                                               | 5,502          | 5,239          |
| Consolidated total assets                                        | 981,152        | 1,014,754      |
| <b>Liabilities</b>                                               |                |                |
| Total liabilities for reportable segments                        | 85,115         | 87,916         |
| Unallocated liabilities                                          | 293,803        | 304,095        |
| Consolidated total liabilities                                   | 378,918        | 392,011        |

|                                                                               | Reportable<br>segment<br>totals<br>\$'000 | Discontinued<br>operations<br>\$'000 | Consolidated<br>Total<br>\$'000 |
|-------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------|---------------------------------|
| <b>Other material items 2011</b>                                              |                                           |                                      |                                 |
| Capital expenditure                                                           | (203,468)                                 | 149                                  | (203,319)                       |
| Depreciation                                                                  | (124,664)                                 | 2,749                                | (121,915)                       |
| Reversal of impairment on property, plant and equipment and intangible assets | 400                                       | -                                    | 400                             |
| <b>Other material items 2010</b>                                              |                                           |                                      |                                 |
| Capital expenditure                                                           | (146,349)                                 | 3,483                                | (142,866)                       |
| Depreciation                                                                  | (107,777)                                 | 9,002                                | (98,775)                        |
| Reversal of impairment on property, plant and equipment and intangible assets | (55,535)                                  | 26,162                               | (29,373)                        |

## 15 Segment reporting (continued)

### Geographical information

The segments are managed on a global basis, but operate facilities and sales offices in Australia, Asia and North America. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The Group's business segments operate geographically as follows:

|                              |                                                                 |
|------------------------------|-----------------------------------------------------------------|
| Australia <sup>(1)</sup>     | Rental, sales and parts divisions throughout Australia          |
| Asia                         | Rental division in Indonesia                                    |
| North America <sup>(2)</sup> | Rental, sales and parts divisions throughout North America      |
| Europe                       | Rental and sales division in Netherlands (Discontinued in 2010) |

### Geographical segments

|                                      | Australia |         | Asia   |        | North America |         | Europe<br>(discont'd) |        | Consolidated |         |
|--------------------------------------|-----------|---------|--------|--------|---------------|---------|-----------------------|--------|--------------|---------|
|                                      | 2011      | 2010    | 2011   | 2010   | 2011          | 2010    | 2011                  | 2010   | 2011         | 2010    |
|                                      | \$'000    | \$'000  | \$'000 | \$'000 | \$'000        | \$'000  | \$'000                | \$'000 | \$'000       | \$'000  |
| Revenue                              | 402,520   | 337,356 | 44,596 | 49,311 | 67,954        | 61,692  | 409                   | 13,341 | 515,479      | 461,700 |
| Non-current <sup>(3)</sup><br>Assets | 649,668   | 596,250 | 58,809 | 56,514 | 123,885       | 130,113 | -                     | 5,675  | 832,362      | 788,552 |

<sup>(1)</sup> The Victorian Rental business, in the Australian geographic segment, was classified as discontinued in 2010. This represented revenue of \$9,507,000 (2010: \$19,758,000) for the year ended 30 June 2011.

<sup>(2)</sup> North American segment consists of the Canadian and USA businesses. During the year ended 30 June 2010, the USA business was discontinued, representing revenue and non-current assets of \$3,068,000 (2010: \$23,869,000) and \$Nil (2010: \$Nil) respectively for 2011.

<sup>(3)</sup> Assets that are considered as held for sale due to their designation as discontinued are not included in the non current assets geographical segment totals.

### Major customer

The Group has no single major customer that would amount to 10% or more of the Group's total revenues.

## 16 Cash assets

|              | Consolidated |        |
|--------------|--------------|--------|
|              | 2011         | 2010   |
|              | \$'000       | \$'000 |
| Cash at bank | 5,502        | 5,239  |

## 17 Trade and other receivables

|                                 | Consolidated |         |
|---------------------------------|--------------|---------|
|                                 | 2011         | 2010    |
|                                 | \$'000       | \$'000  |
| <b>Current</b>                  |              |         |
| Trade receivables               | 87,963       | 91,723  |
| Less: Impairment of receivables | (12,165)     | (6,652) |
|                                 | 75,798       | 85,071  |
| Other receivables               | 7,453        | 5,256   |
|                                 | 83,251       | 90,327  |
| <b>Non-Current</b>              |              |         |
| Other receivables               | 581          | 14      |
|                                 | 581          | 14      |

The Group's exposure to credit risks, currency risks and impairment losses associated with trade and other receivables are disclosed in note 5.

## 18 Prepayments

|                   | Consolidated |        |
|-------------------|--------------|--------|
|                   | 2011         | 2010   |
|                   | \$'000       | \$'000 |
| Tyre prepayments  | -            | 2,244  |
| Other prepayments | 2,313        | 2,306  |
|                   | 2,313        | 4,550  |



## 19 Inventories

|                                                | Consolidated   |                |
|------------------------------------------------|----------------|----------------|
|                                                | 2011<br>\$'000 | 2010<br>\$'000 |
| Equipment and Parts - at cost                  | 33,007         | 67,138         |
| Work in progress - at cost                     | 4,557          | 3,472          |
| Consumables, spare parts - at cost             | 1,288          | 5,854          |
| Total at cost                                  | 38,852         | 76,464         |
| Equipment and Parts - at NRV <sup>(1)</sup>    | 9,717          | 10,553         |
| Total inventory                                | 48,569         | 87,017         |
| Balance at 1 July                              | 87,017         | 142,650        |
| Additions                                      | 23,679         | 36,751         |
| Impairment loss on inventory <sup>(1)</sup>    | (841)          | (5,423)        |
| Cost of sales inventory on rent <sup>(1)</sup> | (1,579)        | (5,044)        |
| Disposals                                      | (59,707)       | (81,917)       |
| Balance at 30 June                             | 48,569         | 87,017         |

<sup>(1)</sup> During the year ended 30 June 2011 the write-down of inventories to net realisable value ("NRV") recognised as an expense in the Statement of Comprehensive Income amounted to \$2,420,000 (2010: \$10,467,000).



## 20 Intangible assets

|                                              | Consolidated   |                |
|----------------------------------------------|----------------|----------------|
|                                              | 2011<br>\$'000 | 2010<br>\$'000 |
| Goodwill                                     |                |                |
| Carrying amount at the beginning of the year | 177,665        | 215,333        |
| Impairment of goodwill                       | -              | (36,951)       |
| Effects of movement in foreign exchange      | (4,835)        | (717)          |
|                                              | 172,830        | 177,665        |
| Contract intangibles - at cost               | 712            | 712            |
| Less: Accumulated amortisation               | (712)          | (712)          |
|                                              | -              | -              |
| Other intangibles - at cost                  | 1,946          | 1,820          |
| Less: Accumulated depreciation               | (1,528)        | (1,293)        |
|                                              | 418            | 527            |
| Total intangible assets                      | 173,248        | 178,192        |

### Amortisation and impairment losses

The amortisation charge and impairment of goodwill are recognised in the following line item in the income statement:

|                                                           | Consolidated   |                |
|-----------------------------------------------------------|----------------|----------------|
|                                                           | 2011<br>\$'000 | 2010<br>\$'000 |
| Amortisation expense                                      | 258            | 295            |
| Impairment of goodwill                                    | -              | 20,105         |
| Total expense for the year<br>for continuing operations   | 258            | 20,400         |
| Impairment of goodwill                                    | -              | 16,846         |
| Total expense for the year<br>for discontinued operations | -              | 16,846         |

## 20 Intangible assets (continued)

### Impairment tests for cash generating units contained goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's geographical operating divisions.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

|                   | Consolidated   |                |
|-------------------|----------------|----------------|
|                   | 2011<br>\$'000 | 2010<br>\$'000 |
| Australian rental | 151,745        | 151,745        |
| Canada rental     | 5,667          | 6,555          |
| Asian rental      | 15,418         | 19,365         |
| Total rental      | 172,830        | 177,665        |

The Group has determined the recoverable amount of its cash generating units ("CGU") using a value in use methodology (2010: value in use) which is based on discounted cash flows for five years plus a terminal value. Real post tax discount rates have been derived as a weighted cost of equity and debt. Cost of equity is calculated using country specific ten year bond rates plus an appropriate market risk premium. The cost of debt is determined using the CGU's functional currencies three year swap rate plus a margin for three year tenor debt of equivalently credit rated businesses at 30 June 2011. The three year swap rates were used as the base rate to reflect the relative illiquidity for longer tenure debt in the current market. The real post tax discount rates for determining the rental CGU's valuations range between 6.6% and 7.3%. For future cashflows of each CGU, the revenue growth in the first year of the business plan includes the benefit from the Group's committed capital investment which will be delivered across FY12 and translate in part to year on year revenue growth, mostly in Australia and Canada. The second year of the business plan will also be influenced to the extent that 100% of the FY12 capital investment will contribute to revenue in FY13. Subsequent revenue growth rates are assumed to be between a range of 2.0% - 3.0% per year (2010: 1.0% - 5.0%) representing anticipated improvements in capital turnover and margins. Compound annual growth rates over the first six years of the forecast range between 4.4% (2010: 4.8%) and 8.7% (2010: 9.5%).

The CGU valuations are sensitive to changes in the discount rate. The Company has further tested those CGU's that were not impaired during the year (refer below) by increasing the discount rate for each of the CGU's by an additional 2.0% (2010: 2.0%). The sensitised testing confirmed that no impairment would be recognised under this scenario.



## 21 Property, plant and equipment

|                                                         | Consolidated   |                |
|---------------------------------------------------------|----------------|----------------|
|                                                         | 2011<br>\$'000 | 2010<br>\$'000 |
| Freehold land and buildings - at cost                   | 29,722         | 30,173         |
| Less: Accumulated depreciation                          | (3,580)        | (2,532)        |
|                                                         | 26,142         | 27,641         |
| Leasehold improvements at cost                          | 4,880          | 3,931          |
| Less: Accumulated depreciation                          | (2,021)        | (1,875)        |
|                                                         | 2,859          | 2,056          |
| Plant and equipment - at cost                           | 988,624        | 894,197        |
| Less : Accumulated depreciation                         | (396,903)      | (334,870)      |
|                                                         | 591,721        | 559,327        |
| Leased plant and equipment - at capitalised cost        | 36,125         | 16,700         |
| Less : Accumulated depreciation                         | (7,165)        | (3,959)        |
|                                                         | 28,960         | 12,741         |
| Furniture, fixtures and fittings - at cost              | 1,178          | 1,214          |
| Less : Accumulated depreciation                         | (498)          | (491)          |
|                                                         | 680            | 723            |
| Office equipment - at cost                              | 3,929          | 3,641          |
| Less : Accumulated depreciation                         | (2,870)        | (2,636)        |
|                                                         | 1,059          | 1,005          |
| Motor vehicles - at cost                                | 7,930          | 5,939          |
| Less : Accumulated depreciation                         | (3,518)        | (2,909)        |
|                                                         | 4,412          | 3,030          |
| Sundry plant - at cost                                  | 10,157         | 9,997          |
| Less : Accumulated depreciation                         | (7,457)        | (6,174)        |
|                                                         | 2,700          | 3,823          |
| Total property, plant and equipment - at net book value | 658,533        | 610,346        |



**21 Property, plant and equipment (continued)**

|                                                                                                            | Consolidated           |                         |
|------------------------------------------------------------------------------------------------------------|------------------------|-------------------------|
|                                                                                                            | 2011<br>\$'000         | 2010<br>\$'000          |
| <b>Reconciliations</b>                                                                                     |                        |                         |
| Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below: |                        |                         |
| <b>Freehold land and buildings</b>                                                                         |                        |                         |
| Carrying amount at the beginning of the year                                                               | 27,641                 | 28,902                  |
| Additions                                                                                                  | 686                    | 645                     |
| Depreciation                                                                                               | (1,172)                | (1,349)                 |
| Disposals                                                                                                  | (949)                  | -                       |
| Foreign Exchange movement                                                                                  | (464)                  | 387                     |
| Impairment                                                                                                 | 400                    | (927)                   |
| Reclassified to assets held for sale                                                                       | -                      | (17)                    |
| Carrying amount at the end of the year                                                                     | 26,142                 | 27,641                  |
| <b>Leasehold improvements</b>                                                                              |                        |                         |
| Carrying amount at the beginning of the year                                                               | 2,056                  | 3,027                   |
| Additions                                                                                                  | 1,576                  | 897                     |
| Disposals                                                                                                  | (289)                  | (178)                   |
| Depreciation                                                                                               | (449)                  | (487)                   |
| Effects of movement in foreign exchange                                                                    | (35)                   | 53                      |
| Impairment                                                                                                 | -                      | (1,111)                 |
| Reclassified to assets held for sale                                                                       | -                      | (145)                   |
| Carrying amount at the end of the year                                                                     | 2,859                  | 2,056                   |
| <b>Plant and equipment</b>                                                                                 |                        |                         |
| Carrying amount at the beginning of the year                                                               | 559,327                | 605,414                 |
| Additions                                                                                                  | 181,846 <sup>(3)</sup> | 140,972                 |
| Capital work in progress                                                                                   | -                      | -                       |
| Transferred from leased Plant and Equipment                                                                | 679                    | 1,772                   |
| Net movement in rental inventory                                                                           | 14,615                 | 3,279                   |
| Disposals                                                                                                  | (34,579)               | (43,327)                |
| Depreciation                                                                                               | (115,425)              | (99,473)                |
| Impairment loss                                                                                            | (5,355) <sup>(1)</sup> | (15,033) <sup>(2)</sup> |
| Reclassified to assets held for sale                                                                       | -                      | (35,475)                |
| Effects of movements in foreign exchange                                                                   | (9,387)                | 1,198                   |
| Carrying amount at the end of the year                                                                     | 591,721                | 559,327                 |
| <b>Furniture, fixtures and fittings</b>                                                                    |                        |                         |
| Carrying amount at the beginning of the year                                                               | 723                    | 1,278                   |
| Additions                                                                                                  | 183                    | 23                      |
| Disposals                                                                                                  | (96)                   | (245)                   |
| Depreciation                                                                                               | (119)                  | (101)                   |
| Impairment                                                                                                 | -                      | (227)                   |
| Reclassified to assets held for sale                                                                       | -                      | (31)                    |
| Effects of movement in foreign exchange                                                                    | (11)                   | 26                      |
| Carrying amount at the end of the year                                                                     | 680                    | 723                     |

<sup>(1)</sup> During FY11 the Indonesian business impaired \$3.3 million of equipment which was damaged whilst being demobilised from a customer site. This equipment was insured and \$4.2 million has been recognised in sundry income (refer note 6) representing insurance proceeds recoverable in relation to this incident. The Company also recognised a provision of \$1.4 million relating to the cost of salvaging the damaged equipment (refer note 25).

<sup>(2)</sup> The prior year impairment loss was associated with plant and equipment within the discontinued operations (refer note 13) plus some impairment of the Canadian civil fleet within continuing operations.

<sup>(3)</sup> This includes \$3.5 million transfer from sales inventory to plant and equipment.



## 21 Property, plant and equipment (continued)

|                                                                                                            | Consolidated   |                |
|------------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                            | 2011<br>\$'000 | 2010<br>\$'000 |
| <b>Reconciliations (continued)</b>                                                                         |                |                |
| Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below: |                |                |
| <b>Office equipment</b>                                                                                    |                |                |
| Carrying amount at the beginning of the year                                                               | 1,005          | 1,058          |
| Additions                                                                                                  | 510            | 676            |
| Disposals                                                                                                  | (59)           | (134)          |
| Depreciation                                                                                               | (379)          | (573)          |
| Impairment                                                                                                 | -              | (64)           |
| Reclassified to assets held for sale                                                                       | -              | (3)            |
| Effects of movement in foreign exchange                                                                    | (18)           | 45             |
| Carrying amount at the end of the year                                                                     | 1,059          | 1,005          |
| <b>Motor vehicles</b>                                                                                      |                |                |
| Carrying amount at the beginning of the year                                                               | 3,030          | 4,030          |
| Additions                                                                                                  | 2,659          | 1,496          |
| Disposals                                                                                                  | (139)          | (1,132)        |
| Depreciation                                                                                               | (1,087)        | (1,183)        |
| Impairment                                                                                                 | -              | (101)          |
| Reclassified to assets held for sale                                                                       | -              | (134)          |
| Effects of movement in foreign exchange                                                                    | (51)           | 54             |
| Carrying amount at the end of the year                                                                     | 4,412          | 3,030          |
| <b>Sundry plant</b>                                                                                        |                |                |
| Carrying amount at the beginning of the year                                                               | 3,823          | 6,335          |
| Additions                                                                                                  | 1,393          | 1,640          |
| Disposals                                                                                                  | (729)          | (868)          |
| Depreciation                                                                                               | (1,722)        | (2,109)        |
| Impairment                                                                                                 | -              | (1,121)        |
| Reclassified to assets held for sale                                                                       | -              | (184)          |
| Effects of movement in foreign exchange                                                                    | (65)           | 130            |
| Carrying amount at the end of the year                                                                     | 2,700          | 3,823          |
| <b>Leased plant and equipment</b>                                                                          |                |                |
| Carrying amount at the beginning of the year                                                               | 12,741         | 17,925         |
| Additions                                                                                                  | 21,229         | -              |
| Transferred to owned plant and equipment                                                                   | (679)          | (1,772)        |
| Disposal                                                                                                   | -              | (1,134)        |
| Depreciation                                                                                               | (4,311)        | (2,503)        |
| Effects of movements in foreign exchange                                                                   | (20)           | 225            |
| Carrying amount at the end of the year                                                                     | 28,960         | 12,741         |

### Security

The Group's assets are subject to a fixed and floating charge under the terms of the syndicated debt facility. Refer note 23 for further details.



## 22 Trade and other payables including derivatives

|                              | Consolidated   |                |
|------------------------------|----------------|----------------|
|                              | 2011<br>\$'000 | 2010<br>\$'000 |
| Trade creditors              | 16,664         | 8,494          |
| Other creditors and accruals | 26,030         | 28,005         |
| Derivatives used for hedging | 5,703          | 14,238         |
|                              | <u>48,397</u>  | <u>50,737</u>  |

The Group's exposure to currency and liquidity risk associated with trade and other payables is disclosed in note 5.

The Company has also entered into a Deed of Cross Guarantee with certain subsidiaries as described in note 38. Under the terms of the Deed, the Company has guaranteed the repayment of all current and future creditors in the event any of the entities party to the Deed are wound up. Details of the consolidated financial position of the Company and subsidiaries party to the Deed are set out in note 38.



## 23 Interest bearing liabilities

|                             | Consolidated   |                |
|-----------------------------|----------------|----------------|
|                             | 2011<br>\$'000 | 2010<br>\$'000 |
| Current                     |                |                |
| Working capital facility    | -              | -              |
| Lease liabilities - secured | 3,308          | 5,203          |
|                             | 3,308          | 5,203          |
| Non-current                 |                |                |
| Bank loans - secured        | 278,000        | 300,009        |
| Lease liabilities - secured | 15,697         | 260            |
| Debt raising costs          | (3,202)        | (1,377)        |
|                             | 290,495        | 298,892        |

### Bank loans

Under the terms of the Group's syndicated loan facility the banks hold a fixed and floating charge over the assets and undertakings of the Group. The \$450.0 million facility was established on 5 November 2010 and comprises a three year \$300.0 million tranche which matures on 5 November 2013 and a five year \$150.0 million tranche which matures on 5 November 2015. Each entity of the Group is a guarantor. The syndicated facility allows for funds to be drawn in Australian, United States and Canadian dollars. At year end the Group had the following drawn:

|      | FY11                                            |                                            | FY10                                            |                                            |
|------|-------------------------------------------------|--------------------------------------------|-------------------------------------------------|--------------------------------------------|
|      | Funds drawn in<br>functional currency<br>\$'000 | Funds drawn<br>translated to AUD<br>\$'000 | Funds drawn in<br>functional currency<br>\$'000 | Funds drawn<br>translated to AUD<br>\$'000 |
| AUD  | \$139,000                                       | \$139,000                                  | \$112,000                                       | \$112,000                                  |
| CAD  | C\$118,000                                      | \$113,823                                  | C\$113,200                                      | \$126,311                                  |
| USD  | US\$27,000                                      | \$25,177                                   | US\$48,000                                      | \$56,219                                   |
| EURO | -                                               | -                                          | €3,825                                          | \$5,478                                    |

### Working capital facility

The working capital facility is secured under the syndicated facility mentioned above, and has a limit of \$25 million (2010: \$30.0 million). The Group also obtained working capital facilities for Emeco Canada Limited of C\$2.0 million (2010: C\$2.0 million) and US\$Nil (2010: US\$1.0 million) respectively. The \$25.0 million facility expires on 16 November 2011 and it is the intention that it will be renegotiated for another 12 months. The C\$2.0 million facility expires 11 December 2011. The working capital facility is undrawn at 30 June 2011.

### Other financial liabilities

Under the terms of the syndicated loan facility the Group can enter other permitted indebtedness totalling \$200.0 million (2010: \$100.0 million). At year end the Group had established finance lease facilities totalling \$19.0 million (2010: \$5.5 million) which are included within this permitted indebtedness limit. Assets leased under the facility are secured by the assets leased.



## 23 Interest bearing liabilities (continued)

### Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

| Consolidated               | Future minimum lease payments |         | Present value of minimum lease payments |  | Future minimum lease payments |      | Present value of minimum lease payments |  |
|----------------------------|-------------------------------|---------|-----------------------------------------|--|-------------------------------|------|-----------------------------------------|--|
|                            | 2011                          |         | 2011                                    |  | 2010                          |      | 2010                                    |  |
|                            | \$'000                        |         | \$'000                                  |  | \$'000                        |      | \$'000                                  |  |
|                            |                               |         |                                         |  |                               |      |                                         |  |
| Less than one year         | 4,570                         | (1,262) | 3,308                                   |  | 5,287                         | (84) | 5,203                                   |  |
| Between one and five years | 18,057                        | (2,360) | 15,697                                  |  | 261                           | (1)  | 260                                     |  |
| More than five years       | -                             | -       | -                                       |  | -                             | -    | -                                       |  |
|                            | 22,627                        | (3,622) | 19,005                                  |  | 5,548                         | (85) | 5,463                                   |  |

The Group leases plant and equipment under finance leases. The Group's lease liabilities are secured by the leased assets of \$28,960,000 (2010: \$12,741,000). In the event of default, the leased assets revert to the lessor.

## 24 Financing arrangements

The Group has the ability to access the following lines of credit:

|                                                           | Consolidated   |                |
|-----------------------------------------------------------|----------------|----------------|
|                                                           | 2011<br>\$'000 | 2010<br>\$'000 |
| Total facilities available:                               |                |                |
| Bank loans                                                | 450,000        | 595,000        |
| Finance leases                                            | 19,005         | 5,463          |
| Working capital                                           | 26,929         | 33,403         |
|                                                           | 495,934        | 633,866        |
| Facilities utilised at reporting date:                    |                |                |
| Bank loans                                                | 278,000        | 300,009        |
| Finance leases                                            | 19,005         | 5,463          |
| Working capital                                           | -              | -              |
|                                                           | 297,005        | 305,472        |
| Facilities not utilised or established at reporting date: |                |                |
| Bank loans                                                | 172,000        | 294,991        |
| Finance leases                                            | -              | -              |
| Working capital                                           | 26,929         | 33,403         |
|                                                           | 198,929        | 328,394        |



## 25 Provisions

|                                        | Consolidated   |                |
|----------------------------------------|----------------|----------------|
|                                        | 2011<br>\$'000 | 2010<br>\$'000 |
| <b>Current</b>                         |                |                |
| Employee benefits:                     |                |                |
| - annual leave                         | 3,272          | 3,542          |
| - long service leave                   | 369            | 314            |
| - other                                | 113            | -              |
| Restructuring                          | -              | 1,446          |
| Salvage                                | 1,363          | -              |
|                                        | <b>5,117</b>   | <b>5,302</b>   |
| <b>Non-current</b>                     |                |                |
| Employee benefits - long service leave | 868            | 803            |

### Restructuring provision

The Group recognised provisions for the restructure of Emeco Europe, Emeco USA, the Victorian Rental business and the Australian Sales business in the prior year. During the year no additional provisions were recognised. Restructuring costs used and reversed during the year amounted to \$775,000 and \$671,000 respectfully.

### Salvage provision

The provision relates to the cost of salvaging equipment damaged whilst being demobilised from a customer's site in Indonesia during the year (refer note 6 and 21).

### Defined contribution superannuation funds

The Group makes contributions to defined contribution superannuation funds. The expense recognised for the year was \$3,130,000 (2010: \$3,165,000).

## 26 Share-based payments

During the year the Company issued performance shares and performance rights to key management personnel and senior employees of the Group under its LTIP (refer note 3k(v)). During the prior years LTIP performance shares and rights were also issued under similar terms and conditions and priced relative to the time of issue.

Prior to establishing the LTIP certain key management personnel and senior employees were issued shares in the Company under the Company's MISP (refer note 3k(v)).

Only the former Company's Executive Directors have outstanding options in the Company at year end. The options were issued on 4 August 2006 and have expired on 4 August 2011 subsequent to balance date and have been disclosed in note 33.

During the year the Company issued matching shares to certain employees of the Group under its ESOP (refer note 3k(v)).

Performance shares, performance rights, options and shares issued under the MISP are all equity settled.

## 26 Share-based payments (continued)

### Long term incentive plan

| Grant date / employees entitled               | Number of Instruments | Vesting conditions                                                                                                                                                                                                                   | Contractual life of performance shares/rights |
|-----------------------------------------------|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| Performance shares/rights 2008                | 1,290,000             | 3 years service TSR ranking to a basket of direct and indirect peers of 98 listed companies. 50% entitlement for a 50.1% ranking within TSR group. Pro rata entitlement up to 100% vesting for a ranking of 75% better to TSR group. | 5 years                                       |
| Performance shares/rights 2009                | 9,819,790             | 3 years service TSR ranking to a basket of direct and indirect peers of 98 listed companies. 50% entitlement for a 50.1% ranking within TSR group. Pro rata entitlement up to 100% vesting for a ranking of 75% better to TSR group  | 5 years                                       |
| Performance shares/rights 2010 <sup>(1)</sup> | 4,608,076             | 3 years service TSR ranking to a basket of direct and indirect peers of 98 listed companies. 50% entitlement for a 50.1% ranking within TSR group. Pro rata entitlement up to 100% vesting for a ranking of 75% better to TSR group  | 5 years                                       |
| Performance shares/rights 2011 <sup>(1)</sup> | 5,889,200             | 3 years service TSR ranking to a basket of direct and indirect peers of 97 listed companies. 50% entitlement for a 50.1% ranking within TSR group. Pro rata entitlement up to 100% vesting for a ranking of 75% better to TSR group  | 5 years                                       |
| Total performance shares/rights               | <u>21,607,066</u>     |                                                                                                                                                                                                                                      |                                               |

<sup>(1)</sup> On 16 November 2010 shareholders approved the grant of 925,926 performance rights and 1,183,929 performance shares for nil consideration for the 2010 and 2011 financial year respectively to the Managing Director. The 925,926 and 1,183,929 instruments have been included in the number of instruments for the performance shares/rights 2010 and 2011 respectively above.

## 26 Share-based payments (continued)

The movement of performance shares and performance rights on issue during the year were as follows:

|                                          | Weighted<br>average<br>exercise price<br>2011 | Number of<br>performance<br>shares/rights<br>2011 | Weighted<br>average<br>exercise price<br>2010 | Number of<br>performance<br>shares/rights<br>2010 |
|------------------------------------------|-----------------------------------------------|---------------------------------------------------|-----------------------------------------------|---------------------------------------------------|
| Outstanding at 1 July                    | \$0.31                                        | 13,489,267                                        | \$0.28                                        | 10,809,790                                        |
| Forfeited during the period              | \$0.36                                        | (4,483,459)                                       | \$0.29                                        | (1,002,672)                                       |
| Exercised during the period              | \$0.87                                        | (26,000)                                          | -                                             | -                                                 |
| Granted during the period <sup>(1)</sup> | \$0.54                                        | 6,815,126                                         | \$0.40                                        | 3,682,149                                         |
| Outstanding at 30 June                   | \$0.39                                        | 15,794,934                                        | \$0.31                                        | 13,489,267                                        |
| Exercisable at 30 June                   | \$0.74                                        | 493,795                                           | -                                             | -                                                 |

<sup>(1)</sup> This includes the 925,926 performance rights granted to Keith Gordon in the 2011 financial year in relation to the performance rights for 2010.

### Executive option plan

| Grant date / employees entitled                      | Number of<br>Instruments | Vesting conditions                                                                                                                                                   | Contractual life<br>of options |
|------------------------------------------------------|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| Option grant to Executive Directors on 4 August 2006 | 6,400,000                | Achievement of forecast prospectus NPAT 2006. 10% compounding growth in NPAT for 2 years there after. Options vest equally over 3 years upon satisfying each hurdle. | 5 years                        |
|                                                      | <u>6,400,000</u>         |                                                                                                                                                                      |                                |

The number and weighted average exercised prices of share options are as follows:

|                             | Weighted<br>average<br>exercise price<br>2011 | Number of<br>options<br>2011 | Weighted<br>average<br>exercise price<br>2010 | Number of<br>options<br>2010 |
|-----------------------------|-----------------------------------------------|------------------------------|-----------------------------------------------|------------------------------|
| Outstanding at 1 July       | \$1.92                                        | 2,133,333                    | \$1.92                                        | 4,266,666                    |
| Forfeited during the period | -                                             | -                            | \$1.92                                        | (2,133,333)                  |
| Exercised during the period | -                                             | -                            | -                                             | -                            |
| Granted during the period   | -                                             | -                            | -                                             | -                            |
| Outstanding at 30 June      | \$1.92                                        | 2,133,333                    | \$1.92                                        | 2,133,333                    |
| Exercisable at 30 June      | \$1.92                                        | 2,133,333                    | \$1.92                                        | 2,133,333                    |

## 26 Share-based payments (continued)

### Management incentive share plan

| Grant date / employees entitled | Number of Instruments | Vesting conditions                                                                              | Contractual life of MISP |
|---------------------------------|-----------------------|-------------------------------------------------------------------------------------------------|--------------------------|
| MISP 2006                       | 4,010,000             | Service requirement. Partial vesting entitlement after 2 years with full vesting after 5 years. | 10 years                 |
| MISP 2007                       | 1,240,000             | Service requirement. Partial vesting entitlement after 2 years with full vesting after 5 years. | 10 years                 |
| MISP 2008                       | 560,000               | Service requirement. Partial vesting entitlement after 2 years with full vesting after 5 years. | 10 years                 |
|                                 | <u>5,810,000</u>      |                                                                                                 |                          |

The number and weighted average exercised prices of MISPs are as follows:

|                                            | Weighted average exercise price 2011 | Number of MISP 2011 | Weighted average exercise price 2010 | Number of MISP 2010 |
|--------------------------------------------|--------------------------------------|---------------------|--------------------------------------|---------------------|
| Outstanding at 1 July                      | \$0.73                               | 3,190,000           | \$0.72                               | 3,370,000           |
| Forfeited during the period                | \$0.61                               | (26,250)            | \$0.61                               | (101,250)           |
| Exercised during the period <sup>(2)</sup> | \$0.64                               | (1,003,750)         | \$0.61                               | (78,750)            |
| Granted during the period                  | -                                    | -                   | -                                    | -                   |
| Outstanding at 30 June                     | \$0.77                               | <u>2,160,000</u>    | \$0.73                               | <u>3,190,000</u>    |
| Exercisable at 30 June <sup>(1)</sup>      | \$0.77                               | <u>1,600,000</u>    | \$0.61                               | <u>500,000</u>      |

<sup>(1)</sup> While satisfying the service requirements under the MISP, the shares are not considered exercisable until the full vesting period has been satisfied.

<sup>(2)</sup> The weighted average share price at date of exercise was \$0.87.

## 26 Share-based payments (continued)

### Employee share ownership plan

| Grant date / employees entitled | Number of Instruments | Vesting conditions                                                                                                        | Contractual life of MISP |
|---------------------------------|-----------------------|---------------------------------------------------------------------------------------------------------------------------|--------------------------|
| ESOP 2011                       | 26,976                | Service requirement. Full vesting entitlement after 1 year after the end of the calendar year in which they are acquired. | 1 year                   |
|                                 | <u>26,976</u>         |                                                                                                                           |                          |

The number and weighted average exercised prices of ESOPs are as follows:

|                                       | Weighted average exercise price 2011 | Number of ESOP 2011 |
|---------------------------------------|--------------------------------------|---------------------|
| Outstanding at 1 July                 | -                                    | -                   |
| Forfeited during the period           | \$1.10                               | (3,224)             |
| Exercised during the period           | -                                    | -                   |
| Granted during the period             | \$1.09                               | 26,976              |
| Outstanding at 30 June                | \$1.09                               | 23,752              |
| Exercisable at 30 June <sup>(1)</sup> | -                                    | -                   |

<sup>(1)</sup> The shares are not considered exercisable until the full vesting period has been satisfied.

## 26 Share-based payments (continued)

The fair value of services received in return for the performance shares and rights issued during the year are based on the fair value of the LTIPs granted, measured using Monte Carlo simulation analysis. Expected volatility is estimated by considering the Company's historical daily and monthly share price movement and an analysis of comparable companies. Market conditions are detailed in note 3(k)(v). The inputs used in the measurement of the fair values at grant date are as follows:

| <i>Fair value of performance shares/rights</i>      | Key management personnel<br>2011 | Key management personnel<br>2010 | Senior employees<br>2011 | Senior employees<br>2010 | ESOP <sup>(1)</sup><br>2011 |
|-----------------------------------------------------|----------------------------------|----------------------------------|--------------------------|--------------------------|-----------------------------|
| Fair value at grant date                            | \$0.56                           | \$0.40 <sup>(2)</sup>            | \$0.56                   | \$0.40 <sup>(2)</sup>    | \$0.96 - \$1.20             |
| Share price                                         | \$0.78                           | \$0.65                           | \$0.78                   | \$0.65                   | \$0.96 - \$1.20             |
| Exercise price                                      | \$Nil                            | \$Nil                            | \$Nil                    | \$Nil                    | \$Nil                       |
| Expected volatility (weighted average volatility)   | 40% - 60%                        | 60%                              | 40% - 60%                | 60%                      | n/a                         |
| Option life (expected weighted average life)        | 3 years                          | 4 years                          | 3 years                  | 4 years                  | 1 year                      |
| Expected dividends                                  | 4.8%                             | 5.0%                             | 4.8%                     | 5.0%                     | n/a                         |
| Risk-free interest rate (based on government bonds) | 4.5%                             | 5.1%                             | 4.5%                     | 5.1%                     | n/a                         |

<sup>(1)</sup> The ESOP was established in November 2010.

<sup>(2)</sup> The fair value of the FY10 LTI securities post modification date is \$0.49.

The fair value assumptions for unvested MISPs that continued to be expensed have not changed since the fair value was determined at grant date in previous years.

### Modification of long term incentive plan

On 13 August 2010 the Board resolved to amend the terms of all existing and future grants of LTI securities as follows:

- commencing with the dividend declared by the Directors for the half year ended 30 June 2010, dividends in respect of performance shares and shadow dividends in respect of performance rights would be paid to the holders of those securities. Previously, dividends were paid into the Emeco Employee share plan trust; and
- if there is an absolute change in control of the Company, all LTI securities on issue at the time of the change in control will automatically vest. Previously, the Board retained a discretion as to whether LTI securities would vest upon a change of control.

The incremental fair value granted for the LTIPs were as follows:

| Share plan  | Increase in incremental value |
|-------------|-------------------------------|
| LTIP FY2008 | \$0.02                        |
| LTIP FY2009 | \$0.05                        |
| LTIP FY2010 | \$0.09                        |

## 26 Share-based payments (continued)

### Employee expenses

| In AUD                                                    | Consolidated |         |
|-----------------------------------------------------------|--------------|---------|
|                                                           | 2011         | 2010    |
| Performance shares/rights                                 | 1,954,633    | 830,485 |
| Options                                                   | -            | -       |
| MISP                                                      | 8,400        | 65,644  |
| ESOP                                                      | 25,942       | -       |
| Total expense recognised as employee costs <sup>(1)</sup> | 1,988,975    | 896,129 |

<sup>(1)</sup> Included in share based employee expenses for the year is the write back of prior year share based employee expenses as a result of the shares, rights or options being forfeited during the year because the employee does not meet the required performance hurdles or service requirements.

## 27 Share capital and reserves

|                                                              | Consolidated   |                |
|--------------------------------------------------------------|----------------|----------------|
|                                                              | 2011<br>\$'000 | 2010<br>\$'000 |
| <b>Share capital</b>                                         |                |                |
| 631,237,586 (2010: 631,237,586 ) ordinary shares, fully paid | 686,191        | 685,465        |
| Acquisition reserve                                          | (75,887)       | (75,887)       |
|                                                              | <b>610,304</b> | <b>609,578</b> |

### Share options

On 4 August 2006 the Company issued 6,400,000 options over ordinary shares under an Employee Incentive Plan. These options had a fair value at grant date of \$1.2 million and were to be recognised over the vesting period of the options. At 30 June 2011 4,266,667 of the issued options had been forfeited. The remaining options have an exercise price of \$1.925 and expired on 4 August 2011.

### Terms and conditions

#### Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at shareholders' meetings. Shares have no par value.

In the event of winding up of the Company, the ordinary shareholder ranks after all other creditors are fully entitled to any proceeds of liquidation.

#### Reserve of own shares

The reserve of own shares comprises of shares purchased on market to satisfy the vesting of shares and rights under the LTIP. Shares that are forfeited under the Company's MISP due to employees not meeting the service vesting requirement are transferred to the reserve. As at 30 June 2011 the Company held 18,300,000 treasury shares (2010: 13,409,000) in satisfaction of the employee share plans.

#### Foreign Currency Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

#### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

#### Share based payment reserve

The share based payment reserve comprises the expenses incurred from the issue of the Company's securities under its employee share/option plans (refer note 3(k)(v)).

## 28 Commitments

### (a) Operating lease commitments

|                                                                                                   | Consolidated   |                |
|---------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                   | 2011<br>\$'000 | 2010<br>\$'000 |
| Future non-cancellable operating leases not provided for in the financial statements and payable: |                |                |
| Less than one year                                                                                | 2,914          | 4,148          |
| Between one and five years                                                                        | 5,936          | 7,040          |
| More than five years                                                                              | 4,525          | 4,052          |
|                                                                                                   | <b>13,375</b>  | <b>15,240</b>  |

The Group leases the majority of their operating premises. The terms of the lease are negotiated in conjunction with the Group's internal and external advisors and are dependent upon market forces.

During the year ended 30 June 2011 an amount of \$5,265,000 (inclusive of an onerous operating lease contract recognised during the year) was recognised as an expense in profit or loss in respect of operating leases (2010: \$8,115,000).

### (b) Capital commitments

The Group has entered into commitments with certain suppliers for purchases of fixed assets, primarily rental fleet assets, in the amount of \$147,637,000 (2010: \$32,130,000) payable within one year.

## 29 Contingent liabilities

### Guarantees

The Group has guaranteed the repayments of \$342,500 (2010: \$342,500) in relation to office premises with varying expiry dates out to 30 June 2013.

## 30 Contingent assets

The Company has lodged prior year income tax return amendments with the ATO due to the change in legislation regarding the deductibility of contract intangibles. This affects income tax years 1 July 2004 to 30 June 2007. The value of the deduction is \$17,063,000 resulting in a refund of \$5,119,000. The Company is of the opinion that it is entitled to the refund and recognition is pending a legislative review by the Australian Board of Taxation.

## 31 Notes to the statement of cash flows

### (i) Reconciliation of cash

For the purposes of the statements of cash flow, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:-

|             | Note | Consolidated   |                |
|-------------|------|----------------|----------------|
|             |      | 2011<br>\$'000 | 2010<br>\$'000 |
| Cash assets | 16   | 5,502          | 5,239          |

### 31 Notes to the statement of cash flows (continued)

(ii) Reconciliation of net profit to net cash provided by operating activities

|                                                                                                                                | Note | Consolidated   |                |
|--------------------------------------------------------------------------------------------------------------------------------|------|----------------|----------------|
|                                                                                                                                |      | 2011<br>\$'000 | 2010<br>\$'000 |
| Net profit                                                                                                                     |      | 49,609         | (49,313)       |
| Add/(less) items classified as investing/financing activities:                                                                 |      |                |                |
| Net profit on sale of non-current assets                                                                                       |      | (2,598)        | (505)          |
| Loss on sale of discontinued operations                                                                                        | 13   | 424            | -              |
| Add/(less) non-cash items:                                                                                                     |      |                |                |
| Amortisation                                                                                                                   |      | 258            | 295            |
| Depreciation                                                                                                                   |      | 124,663        | 107,777        |
| Amortisation of borrowing costs                                                                                                | 7    | 2,066          | 2,099          |
| (Gain)/loss on ineffective hedge                                                                                               | 7    | (392)          | 1,604          |
| Unrealised foreign exchange (gain)/loss                                                                                        |      | 80             | (716)          |
| Impairment losses on property, plant & equipment                                                                               |      | 4,955          | 18,584         |
| Write down on inventory                                                                                                        |      | 841            | 10,467         |
| Impairment of goodwill                                                                                                         |      | -              | 36,951         |
| Cost of sales equipment on rent                                                                                                |      | 1,579          | 5,044          |
| Doubtful debt write back                                                                                                       |      | (3,500)        | 1,834          |
| Provision for doubtful debts                                                                                                   |      | 9,333          | -              |
| FCTR of discontinued operations disposed                                                                                       |      | (420)          | 5,371          |
| Restructure provisions recognised/(reversed)                                                                                   |      | (671)          | 3,053          |
| Other non-cash items                                                                                                           |      | (428)          | -              |
| Equity settled share based payments                                                                                            |      | (1,989)        | 901            |
| (Decrease)/increase in income taxes payable                                                                                    |      | 1,370          | (7,312)        |
| (Decrease)/increase in deferred taxes                                                                                          |      | 2,867          | 3,247          |
| Net cash provided by operating activities before change in assets/(liabilities) adjusted for assets and (liabilities) acquired |      | 188,047        | 139,381        |
| (Increase)/decrease in trade and other receivables                                                                             |      | 2,483          | (4,993)        |
| (Increase)/decrease in inventories                                                                                             |      | 34,990         | 5,911          |
| Increase/(decrease) in payables                                                                                                |      | (9,898)        | 7,629          |
| Increase/(decrease) in provisions                                                                                              |      | (691)          | (466)          |
| Net cash provided by operating activities                                                                                      |      | 214,931        | 147,462        |

(iii) Non-cash investing and financing activities

During the year there were \$21.2 million in acquisitions of plant and equipment by means of finance lease (2010: \$Nil). Finance lease acquisitions are not reflected in the cash flow statements.

## 32 Controlled entities

### (a) Particulars in relation to controlled entities

|                                                                                     | Note  | Country of Incorporation | Ownership Interest 2011 % | 2010 % |
|-------------------------------------------------------------------------------------|-------|--------------------------|---------------------------|--------|
| <i>Parent entity</i>                                                                |       |                          |                           |        |
| Emeco Holdings Limited                                                              |       |                          |                           |        |
| <i>Controlled entities</i>                                                          |       |                          |                           |        |
| Pacific Custodians Pty Ltd as trustee for Emeco Employee Share Ownership Plan Trust |       | Australia                | 100                       | 100    |
| Emeco Pty Limited                                                                   |       | Australia                | 100                       | 100    |
| Emeco International Pty Limited                                                     |       | Australia                | 100                       | 100    |
| Emeco Sales Pty Ltd                                                                 |       | Australia                | 100                       | 100    |
| Emeco Parts Pty Ltd                                                                 |       | Australia                | 100                       | 100    |
| Emeco (UK) Limited                                                                  | (i)   | United Kingdom           | 100                       | 100    |
| Emeco Equipment (USA) LLC (*)                                                       | (ii)  | United States            | 100                       | 100    |
| PT Prima Traktor IndoNusa (PTI)                                                     | (iii) | Indonesia                | 100                       | 100    |
| Emeco International Europe BV (*)                                                   | (iv)  | Netherlands              | 100                       | 100    |
| Emeco Europe BV (*)                                                                 | (iv)  | Netherlands              | 100                       | 100    |
| Euro Machinery BV (*)                                                               | (v)   | Netherlands              | 100                       | 100    |
| Emeco Canada Ltd                                                                    | (vi)  | Canada                   | 100                       | 100    |

#### Notes

- (i) Emeco (UK) Limited was incorporated in and carries on business in the United Kingdom. Emeco (UK) Limited is the parent entity of Emeco Equipment (USA) LLC, PT Prima Traktor IndoNusa ("PTI"), Emeco International Europe BV and Emeco Canada Limited.
- (ii) Emeco Equipment (USA) LLC was incorporated in and carries on business in the United States. Wildcat Tractor Company LLC was acquired by Emeco Equipment (USA) LLC on 4 January 2008 and was dissolved on 3 November 2009.
- (iii) PT Prima Traktor IndoNusa was incorporated in and carries on business in Indonesia.
- (iv) Emeco International Europe BV and Emeco Europe BV were incorporated in and carries on business in the Netherlands. Emeco International Europe BV is the parent entity of Emeco Europe BV, and Euro Machinery BV.
- (v) Euro Machinery BV was acquired on 4 January 2007 and carries on business in the Netherlands.
- (vi) Emeco Canada Ltd was incorporated and carries on business in Canada. On 2 August 2005 Emeco Canada Ltd acquired River Valley Equipment Company Ltd, which operates within Emeco Canada Ltd.
- (\*) Discontinued operations at 30 June 2011 and 30 June 2010.

### (b) Acquisition of entities in the current year

There was no acquisition of entities this financial year.

### (c) Acquisition of entities in the prior year

There was no acquisition of entities in the prior year.

### 33 Key management personnel disclosure

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

#### Non-Executive Directors

A N Brennan (Chairperson)  
P B Johnston  
J R Cahill  
R P Bishop  
P I Richards

#### Executive Director

K D Gordon (Managing Director)

#### Executives

S G Gobby (Chief Financial Officer)  
D O Tilbrook (General Manager South East Asia)  
H A Christie-Johnston (General Manager Australian Sales & Parts)  
M A Turner (General Manager Global Asset Group)  
M R Kirkpatrick (General Manager Corporate Services)  
A G Halls (General Manager Australian Rental)  
I M Testrow (President North America)  
G Gadosky (General Manager Strategy and Business Development) ceased employment 25 March 2011  
C Mossman (President Director Indonesia) appointed 11 March 2011

### Key management personnel compensation

The key management personnel compensation is as follows:

|                              | Consolidated     |                  |
|------------------------------|------------------|------------------|
|                              | 2011             | 2010             |
| <i>In AUD</i>                |                  |                  |
| Short-term employee benefits | 6,337,256        | 4,597,896        |
| Other long term benefits     | -                | -                |
| Post-employment benefits     | 244,774          | 308,860          |
| Termination benefits         | 212,500          | -                |
| Equity compensation benefits | 1,386,534        | 462,767          |
|                              | <u>8,181,064</u> | <u>5,369,523</u> |



### 33 Key management personnel disclosure (continued)

#### Remuneration of key management personnel by the Group

The compensation disclosed above represents an allocation of the key management personnel's compensation from the Group in relation to their services rendered to the Company.

#### Individual Directors and Executives compensation disclosures

Information regarding individual Directors and Executives compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 and 2M.6.04 are provided in the Remuneration Report section of the Directors' report on pages 33 to 50.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

#### Equity Instruments

##### Shares and rights over equity instruments granted as compensation under management incentive share plan

The Company has an ongoing management incentive share plan in which shares have been granted to certain Directors and employees of the Company. The shares vest over a five year period and are accounted for as an option in accordance with AASB 2 *Share Based Payments*. The Company has provided a ten year interest free loan to facilitate the purchase of the Shares under the management incentive share plan.

##### Shares and rights over equity instruments granted as compensation under long term incentive plan

The Company has an ongoing long term incentive plan in which shares have been granted to certain employees of the Company. The shares vest after 3 years depending upon the Company's total shareholder return ranking against a peer group of 97 Companies. The shares have been accounted for as an option in accordance with AASB 2 *Share Based Payments*.



### 33 Key management personnel disclosure (continued)

The movement during the reporting year in the number of shares issued under the management incentive share plan, performance shares under the long term incentive plan and matching employee share ownership plan in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows. These plans have been combined for the purposes of this note as they represent direct interests over the shares. Directors or Executives with no holdings are not included in the following tables.

| 2011 Shares                        | Held at<br>1 July 2010 | Granted as<br>compensation | Exercised | Forfeited/<br>lapsed | Held at<br>30 June<br>2011 | Vested<br>during<br>the year | Vested<br>at 30 June<br>2011 |
|------------------------------------|------------------------|----------------------------|-----------|----------------------|----------------------------|------------------------------|------------------------------|
| <b>Directors &amp; Executives</b>  |                        |                            |           |                      |                            |                              |                              |
| Hamish Christie-Johnston           | 995,495                | 265,913                    | -         | -                    | 1,261,408                  | <sup>(1)</sup> -             | -                            |
| Stephen Gobby                      | 881,982                | 420,556                    | -         | (72,000)             | 1,230,538                  | 78,000                       | 78,000                       |
| David Tilbrook                     | 784,685                | 355,029                    | -         | (48,000)             | 1,091,714                  | 52,000                       | 52,000                       |
| Michael Turner                     | 685,586                | 315,199                    | -         | (48,000)             | 952,785                    | 52,000                       | 52,000                       |
| Ian Testrow                        | 940,541                | -                          | -         | (48,000)             | 892,541                    | <sup>(1)</sup> 352,000       | 352,000                      |
| Michael Kirkpatrick                | 650,450                | 250,000                    | (176,000) | (24,000)             | 700,450                    | <sup>(2)</sup> 176,000       | -                            |
| Anthony Halls                      | 162,162                | 268,056                    | -         | -                    | 430,218                    | -                            | -                            |
| Christopher Mossman <sup>(4)</sup> | n/a                    | n/a                        | n/a       | n/a                  | 171,667                    | -                            | -                            |
| Guido Gadomsky <sup>(5)</sup>      | -                      | 232,710                    | -         | (232,710)            | n/a                        | -                            | -                            |
| Alexander Brennan                  | 500,000                | -                          | -         | -                    | 500,000                    | <sup>(3)</sup> -             | 500,000                      |
| Keith Gordon                       | -                      | 1,183,929                  | -         | -                    | 1,183,929                  | -                            | -                            |
| 2010 Shares                        | Held at<br>1 July 2009 | Granted as<br>compensation | Exercised | Forfeited/<br>lapsed | Held at<br>30 June<br>2010 | Vested<br>during<br>the year | Vested<br>at 30 June<br>2010 |
| <b>Directors &amp; Executives</b>  |                        |                            |           |                      |                            |                              |                              |
| Hamish Christie-Johnston           | 995,495                | -                          | -         | -                    | 995,495                    | <sup>(1)</sup> -             | -                            |
| Stephen Gobby                      | 881,982                | -                          | -         | -                    | 881,982                    | -                            | -                            |
| David Tilbrook                     | 784,685                | -                          | -         | -                    | 784,685                    | -                            | -                            |
| Michael Turner                     | 685,586                | -                          | -         | -                    | 685,586                    | -                            | -                            |
| Ian Testrow                        | 940,541                | -                          | -         | -                    | 940,541                    | <sup>(1)</sup> -             | -                            |
| Michael Kirkpatrick                | 650,450                | -                          | -         | -                    | 650,450                    | <sup>(2)</sup> -             | -                            |
| Anthony Halls                      | 162,162                | -                          | -         | -                    | 162,162                    | -                            | -                            |
| Christopher Mossman <sup>(4)</sup> | n/a                    | n/a                        | n/a       | n/a                  | n/a                        | -                            | -                            |
| Guido Gadomsky <sup>(5)</sup>      | n/a                    | n/a                        | n/a       | n/a                  | -                          | -                            | -                            |
| Alexander Brennan                  | 500,000                | -                          | -         | -                    | 500,000                    | <sup>(3)</sup> -             | 500,000                      |

Dividends paid under the Management Incentive Share Plan are paid against the employees outstanding loan and is reflected in issued capital.

- <sup>(1)</sup> Included in this balance of equity instruments Messrs Christie-Johnston and Testrow held MISP shares at 30 June 2010 and 30 June 2011 of 500,000 and 300,000 respectively.
- <sup>(2)</sup> Included in this balance of equity instruments Mr Kirkpatrick held MISP shares at 30 June 2010 and 30 June 2011 of 150,000 and nil respectively.
- <sup>(3)</sup> Included in this balance of equity instruments Mr Brennan held MISP shares at 30 June 2010 and 30 June 2011 of 500,000.
- <sup>(4)</sup> Mr Mossman became a key management personnel on 11 March 2011. The shares held at 30 June 2011 were granted as compensation prior to Mr Mossman becoming a key management personnel.
- <sup>(5)</sup> Mr Gadomsky become a key management personnel on 24 May 2010 and ceased to be one on 25 March 2011.
- n/a Not applicable as not in a position of key management personnel at time of compilation.

### 33 Key management personnel disclosure (continued)

The movement during the reporting year in the number of performance rights issued under the long term incentive plan in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows. Directors or Executives with no holdings are not included in the following tables.

| 2011 Rights                        | Held at<br>1 July 2010 | Granted as<br>compensation | Exercised | Forfeited/<br>lapsed | Held at<br>30 June<br>2011 | Vested<br>during<br>the year | Vested<br>at 30 June<br>2011 |
|------------------------------------|------------------------|----------------------------|-----------|----------------------|----------------------------|------------------------------|------------------------------|
| <b>Directors &amp; Executives</b>  |                        |                            |           |                      |                            |                              |                              |
| Hamish Christie-Johnston           | 203,704                | -                          | -         | -                    | 203,704                    | -                            | -                            |
| Stephen Gobby                      | 300,926                | -                          | -         | -                    | 300,926                    | -                            | -                            |
| David Tilbrook                     | 281,481                | -                          | -         | -                    | 281,481                    | -                            | -                            |
| Michael Turner                     | 240,741                | -                          | -         | -                    | 240,741                    | -                            | -                            |
| Ian Testrow                        | 239,077                | 269,393                    | -         | -                    | 508,470                    | -                            | -                            |
| Michael Kirkpatrick                | 185,185                | -                          | -         | -                    | 185,185                    | -                            | -                            |
| Anthony Halls                      | 166,667                | -                          | -         | -                    | 166,667                    | -                            | -                            |
| Christopher Mossman <sup>(1)</sup> | n/a                    | n/a                        | -         | -                    | 177,586                    | -                            | -                            |
| Keith Gordon <sup>(2)</sup>        | -                      | 925,926                    | -         | -                    | 925,926                    | -                            | -                            |
| 2010 Rights                        | Held at<br>1 July 2009 | Granted as<br>compensation | Exercised | Forfeited/<br>lapsed | Held at<br>30 June<br>2010 | Vested<br>during<br>the year | Vested<br>at 30 June<br>2010 |
| <b>Directors &amp; Executives</b>  |                        |                            |           |                      |                            |                              |                              |
| Hamish Christie-Johnston           | -                      | 203,704                    | -         | -                    | 203,704                    | -                            | -                            |
| Stephen Gobby                      | -                      | 300,926                    | -         | -                    | 300,926                    | -                            | -                            |
| David Tilbrook                     | -                      | 281,481                    | -         | -                    | 281,481                    | -                            | -                            |
| Michael Turner                     | -                      | 240,741                    | -         | -                    | 240,741                    | -                            | -                            |
| Ian Testrow                        | -                      | 239,077                    | -         | -                    | 239,077                    | -                            | -                            |
| Michael Kirkpatrick                | -                      | 185,185                    | -         | -                    | 185,185                    | -                            | -                            |
| Anthony Halls                      | -                      | 166,667                    | -         | -                    | 166,667                    | -                            | -                            |
| Christopher Mossman <sup>(1)</sup> | -                      | n/a                        | -         | -                    | n/a                        | -                            | -                            |

<sup>(1)</sup> Mr Mossman became a key management personnel on 11 March 2011.

<sup>(2)</sup> Mr Gordon was approved 925,926 performance rights, approved by shareholders at the Company's Annual General Meeting on 16 November 2010. Although this grant was approved and disclosed in FY11, it was a grant made under the FY10 LTI plan.

n/a Not applicable as not in a position of key management personnel at time of compilation.

### 33 Key management personnel disclosure (continued)

#### Options over equity instruments granted as compensation under a share option programme

The movement during the reporting year in the number of options held, directly, indirectly or beneficially, by each former key management person, including their related parties is as follows:

| 2011                              | Held at<br>1 July 2010 | Granted as<br>compensation | Exercised | Options<br>Forfeited | Other<br>Changes | Held at<br>30 June<br>2011 <sup>(1)</sup> | Vested<br>during<br>the year | Vested and<br>exercisable<br>at 30 June<br>2011 |
|-----------------------------------|------------------------|----------------------------|-----------|----------------------|------------------|-------------------------------------------|------------------------------|-------------------------------------------------|
| <b>Directors &amp; Executives</b> |                        |                            |           |                      |                  |                                           |                              |                                                 |
| L C Freedman                      | 1,600,000              | -                          | -         | -                    | -                | 1,600,000                                 | -                            | 1,600,000                                       |
| R L C Adair                       | 533,334                | -                          | -         | -                    | -                | 533,334                                   | -                            | 533,333                                         |
| 2010                              | Held at<br>1 July 2009 | Granted as<br>compensation | Exercised | Options<br>Forfeited | Other<br>Changes | Held at<br>30 June<br>2010                | Vested<br>during<br>the year | Vested and<br>exercisable<br>at 30 June<br>2010 |
| <b>Directors &amp; Executives</b> |                        |                            |           |                      |                  |                                           |                              |                                                 |
| L C Freedman                      | 3,200,000              | -                          | -         | (1,600,000)          | -                | 1,600,000                                 | -                            | 1,600,000                                       |
| R L C Adair                       | 1,066,667              | -                          | -         | (533,333)            | -                | 533,334                                   | -                            | 533,333                                         |

<sup>(1)</sup> The options issued to Mr Freedman and Mr Adair expired 5 years after their date of issue on 4 August 2011.

### 33 Key management personnel disclosure (continued)

#### Equity holdings and transactions

The shares in the Company held, directly, indirectly or beneficially, by each key management person, including their personally-related entities at year end, is as follows. Directors or Executives with no holdings are not included in these tables.

| 2011                  | Held at<br>1 July 2010            |           |             | Held at<br>30 June 2011           |
|-----------------------|-----------------------------------|-----------|-------------|-----------------------------------|
|                       | Ordinary<br>Shares <sup>(1)</sup> | Purchases | Sales       | Ordinary<br>Shares <sup>(1)</sup> |
| <b>Directors</b>      |                                   |           |             |                                   |
| K D Gordon            | 650,000                           | -         | -           | 650,000                           |
| A N Brennan           | 1,081,700                         | -         | -           | 1,081,700                         |
| P B Johnston          | 100,000                           | -         | -           | 100,000                           |
| J R Cahill            | 120,000                           | -         | -           | 120,000                           |
| R P Bishop            | 300,000                           | -         | -           | 300,000                           |
| P I Richards          | 40,000                            | -         | -           | 40,000                            |
| <b>Executives</b>     |                                   |           |             |                                   |
| D O Tilbrook          | 3,300,000                         | -         | -           | 3,300,000                         |
| M A Turner            | 5,500,000                         | -         | (2,500,000) | 3,000,000                         |
| S G Gobby             | 470,000                           | -         | (87,000)    | 383,000                           |
| I M Testrow           | -                                 | -         | -           | -                                 |
| H A Christie-Johnston | 337,399                           | -         | (250,000)   | 87,399                            |
| M R Kirkpatrick       | 63,000                            | -         | (63,000)    | -                                 |
| A G Halls             | 35,773                            | -         | (15,773)    | 20,000                            |
| C Mossman             | n/a                               | -         | -           | 12,500                            |

<sup>(1)</sup> Total does not include shares held under the Company's share plans as these are disclosed elsewhere.

n/a Not applicable as not in a position of key management personnel at time of compilation.

### 33 Key management personnel disclosure (continued)

| 2010                  | Held at<br>1 July 2009<br>Ordinary<br>Shares <sup>(1)</sup> | Purchases | Sales    | Held at<br>30 June 2010<br>Ordinary<br>Shares <sup>(1)</sup> |
|-----------------------|-------------------------------------------------------------|-----------|----------|--------------------------------------------------------------|
| <b>Directors</b>      |                                                             |           |          |                                                              |
| K D Gordon            | n/a                                                         | 650,000   | -        | 650,000                                                      |
| A N Brennan           | 1,081,700                                                   | -         | -        | 1,081,700                                                    |
| P B Johnston          | 100,000                                                     | -         | -        | 100,000                                                      |
| J R Cahill            | 120,000                                                     | -         | -        | 120,000                                                      |
| R P Bishop            | n/a                                                         | 300,000   | -        | 300,000                                                      |
| L C Freedman          | 20,000,000                                                  | -         | -        | n/a                                                          |
| R L C Adair           | 6,300,000                                                   | -         | -        | n/a                                                          |
| P I Richards          | n/a                                                         | 40,000    | -        | 40,000                                                       |
| <b>Executives</b>     |                                                             |           |          |                                                              |
| D O Tilbrook          | 3,300,000                                                   | -         | -        | 3,300,000                                                    |
| M A Turner            | 5,500,000                                                   | -         | -        | 5,500,000                                                    |
| S G Gobby             | 343,000                                                     | 127,000   | -        | 470,000                                                      |
| I M Testrow           | -                                                           | -         | -        | -                                                            |
| H A Christie-Johnston | 300,000                                                     | 37,399    | -        | 337,399                                                      |
| M R Kirkpatrick       | 93,000                                                      | -         | (30,000) | 63,000                                                       |
| A G Halls             | 15,773                                                      | 20,000    | -        | 35,773                                                       |

#### Loans

Other than the loan issued under the management incentive share plan no specified Director or Executive has entered into any loan arrangements with the Group.

### 33 Key management personnel disclosure (continued)

#### Other key management personnel transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate value of transactions recognised during the year related to key management personnel and their related parties were as follows:

|                                                             | Note                                      | Transaction value<br>year ended<br>30 June |                | Balance<br>outstanding as<br>at 30 June |                |
|-------------------------------------------------------------|-------------------------------------------|--------------------------------------------|----------------|-----------------------------------------|----------------|
|                                                             |                                           | 2011<br>\$'000                             | 2010<br>\$'000 | 2011<br>\$'000                          | 2010<br>\$'000 |
| <b>Key management person and their related parties</b>      | <b>Transaction</b>                        |                                            |                |                                         |                |
| Mr P Richards<br>- Kangaroo Resources Limited               | Rental of heavy earthmoving equipment (1) | 3,971                                      | -              | 1,133                                   | -              |
| Mr M A Turner<br>Mr D O Tilbrook<br>- Ivy Street Unit Trust | Rental of 510 Great Eastern Highway (2)   | 37                                         | 249            | -                                       | -              |

(1) PT Prima Traktor IndoNusa (refer note 32) rents heavy earthmoving equipment to PT Mamahak Coal Mining, a subsidiary of Kangaroo Resources Limited for an annual consideration of A\$3,970,718 (inclusive of VAT) translated at an AUD/USD average exchange rate of 0.9872 for FY11. The balance outstanding as at 30 June 2011 was A\$1,132,832 translated at the 30 June 2011 AUD/USD rate of 1.0724. The Group also holds a bank guarantee and deposit of A\$724,422 and A\$85,144 respectively from Kangaroo Resources Limited as security against outstanding amounts. The rental contract was negotiated on an arms length basis. One of the Group's Non-Executive Directors, Mr Peter Richards, is a Non-Executive Director of Kangaroo Resources Limited.

(2) The Group rented its former premises at 510 Great Eastern Highway, Redcliffe in Western Australia from Demol Investments Pty Ltd as trustee of the Ivy Street Unit Trust ("Trust") for an annual consideration of \$37,810 (2010: \$248,602). The price was negotiated on an arms length basis. Two of the Group's key management personnel, Mr David Tilbrook and Mr Michael Turner, hold units in the Trust and each of them has a significant influence over the Trust. On the 18 August 2010 the Group terminated this agreement due to the relocation of the office to 71 Walters Drive, Osborne Park in Western Australia.

### **34 Other related party transactions**

#### **Subsidiaries**

Loans are made between wholly owned subsidiaries of the Group for capital purchases. Loans outstanding between the different wholly owned entities of the Company have no fixed date of repayment. Loans made between subsidiaries within a common taxable jurisdiction are interest free. Cross border subsidiary loans are charged at LIBOR plus a relevant arms length mark up.

#### **Ultimate parent entity**

Emeco Holdings Limited is the ultimate parent entity of the Group.

### **35 Subsequent events**

Subsequent to 30 June 2011 the Company declared a 3.0 cent fully franked dividend payable 30 September 2011.

### **36 Earnings per share**

#### **Basic earnings per share**

The calculation of basic earnings per share at 30 June 2011 was based on the profit/(loss) attributable to ordinary shareholders of \$49,699,000 (2010: (\$49,313,000)) and a weighted average number of ordinary shares outstanding less any treasury shares for the year ended 30 June 2011 of 612,938,470 (2010: 617,829,139).

The calculation of "basic" earnings per share at 30 June 2010 has been restated to include the effects of treasury shares.

#### **Profit attributed to ordinary shareholders**

|                              | Consolidated                    |                                   |                 |                                 |                                   |                 |
|------------------------------|---------------------------------|-----------------------------------|-----------------|---------------------------------|-----------------------------------|-----------------|
|                              | 2011                            |                                   |                 | 2010                            |                                   |                 |
|                              | Continuing operations<br>\$'000 | Discontinued operations<br>\$'000 | Total<br>\$'000 | Continuing operations<br>\$'000 | Discontinued operations<br>\$'000 | Total<br>\$'000 |
| Profit/(loss) for the period | 49,974                          | (365)                             | 49,609          | 12,300                          | (61,613)                          | (49,313)        |

### 36 Earnings per share (continued)

#### Weighted average number of ordinary shares

|                                                       | Consolidated |              |
|-------------------------------------------------------|--------------|--------------|
|                                                       | 2011<br>'000 | 2010<br>'000 |
| Issued ordinary shares at 1 July                      | 631,238      | 631,238      |
| Effect of treasury shares purchased during the year   | (18,300)     | (13,409)     |
| Weighted average number of ordinary shares at 30 June | 612,938      | 617,829      |

#### Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2011 was based on profit/(loss) attributable to ordinary shareholders of \$49,974,000 (2010: (\$49,313,000)) and a weighted average number of ordinary shares outstanding less any treasury shares during the financial year ended 30 June 2011 of 630,580,189 (2010: 630,152,701).

The calculation of "diluted" earnings per share ("EPS") at 30 June 2010 have been restated to include the effects of treasury shares and performance shares/rights. The restatement has an anti-dilutive effect on the Group EPS at 30 June 2010.

#### Profit attributed to ordinary shareholders (diluted)

|                                                           | Consolidated                       |                                      |                 |                                    |                                      |                 |
|-----------------------------------------------------------|------------------------------------|--------------------------------------|-----------------|------------------------------------|--------------------------------------|-----------------|
|                                                           | 2011                               |                                      |                 | 2010                               |                                      |                 |
|                                                           | Continuing<br>operations<br>\$'000 | Discontinued<br>operations<br>\$'000 | Total<br>\$'000 | Continuing<br>operations<br>\$'000 | Discontinued<br>operations<br>\$'000 | Total<br>\$'000 |
| Profit/(loss) attributed to ordinary shareholders (basic) | 49,974                             | (365)                                | 49,609          | 12,300                             | (61,613)                             | (49,313)        |

#### Weighted average number of ordinary shares (diluted)

|                                                                 | Consolidated |              |
|-----------------------------------------------------------------|--------------|--------------|
|                                                                 | 2011<br>'000 | 2010<br>'000 |
| Weighted average number of ordinary shares at 30 June           | 631,238      | 631,238      |
| Effect of the vesting of contingently issuable shares           | 17,642       | 12,324       |
| Effect of treasury shares purchased during the year             | (18,300)     | (13,409)     |
| Weighted average number of ordinary shares (diluted) at 30 June | 630,580      | 630,153      |

#### Comparative information

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

### 37 Parent entity disclosure

As at and throughout the financial year ending 30 June 2011 the parent company (the "Company") of the Group was Emeco Holdings Limited.

|                                                         | Company        |                |
|---------------------------------------------------------|----------------|----------------|
|                                                         | 2011<br>\$'000 | 2010<br>\$'000 |
| <b>Result of the parent entity</b>                      |                |                |
| Profit/(Loss) for the period                            | 118,509        | (19,009)       |
| Other comprehensive income                              | -              | -              |
| Total comprehensive income for the period               | -              | -              |
| <b>Financial position of parent entity at year end</b>  |                |                |
| Current assets                                          | 153            | 232            |
| Non-current assets                                      | 690,708        | 653,314        |
| Total assets                                            | 690,861        | 653,546        |
| Current liabilities                                     | 5,922          | 1,537          |
| Total liabilities                                       | 5,922          | 1,537          |
| <b>Total equity of the parent entity comprising of:</b> |                |                |
| Share capital                                           | 686,191        | 685,465        |
| Share based payment reserve                             | 6,462          | 2,728          |
| Reserve for own shares                                  | (10,715)       | (6,247)        |
| Retained earnings                                       | 3,001          | (29,937)       |
| <b>Total equity</b>                                     | 684,939        | 652,009        |

#### Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in Note 38.

### 38 Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of Financial reports, and Directors' reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- Emeco Pty Ltd
- Emeco International Pty Limited

A consolidated statement of comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, for the year ended 30 June 2011 is set out as follows:

#### Statement of comprehensive income and retained earnings

|                                           | Consolidated   |                 |
|-------------------------------------------|----------------|-----------------|
|                                           | 2011<br>\$'000 | 2010<br>\$'000  |
| Revenue                                   | 402,311        | 368,967         |
| Cost of sales                             | (270,865)      | (261,463)       |
| <b>Gross profit</b>                       | <b>131,446</b> | <b>107,504</b>  |
| Operating expense                         | (19,109)       | (114,852)       |
| Finance income                            | 907            | 1,099           |
| Finance costs                             | (18,713)       | (19,667)        |
| <b>Profit before tax</b>                  | <b>94,531</b>  | <b>(25,916)</b> |
| Income tax expense                        | (19,043)       | (12,368)        |
| <b>Net loss after tax</b>                 | <b>75,488</b>  | <b>(38,284)</b> |
| Other comprehensive income                | 363            | 10,534          |
| Total comprehensive income for the period | 363            | 10,534          |
| Retained earnings at beginning of year    | 64,125         | 104,500         |
| Dividends recognised during the year      | (56,811)       | (12,625)        |
| <b>Retained earnings at end of year</b>   | <b>83,165</b>  | <b>64,125</b>   |
| <b>Attributable to:</b>                   |                |                 |
| Equity holders of the Company             | 83,165         | 64,125          |
| <b>Profit/(Loss) for the period</b>       | <b>75,488</b>  | <b>(38,284)</b> |

### 38 Deed of cross guarantee (continued)

#### Statement of financial position

|                                                           | Consolidated   |                |
|-----------------------------------------------------------|----------------|----------------|
|                                                           | 2011<br>\$'000 | 2010<br>\$'000 |
| <b>Current assets</b>                                     |                |                |
| Cash assets                                               | 2,703          | 3,169          |
| Trade and other receivables                               | 62,950         | 60,588         |
| Inventories                                               | 45,242         | 74,723         |
| Assets held for sale                                      | 8,728          | 36,436         |
| Total current assets                                      | 119,623        | 174,916        |
| <b>Non-current assets</b>                                 |                |                |
| Trade and other receivables                               | 22,686         | 30,057         |
| Intangible assets                                         | 151,728        | 151,836        |
| Investments                                               | 232,748        | 174,092        |
| Property, plant and equipment                             | 482,647        | 401,452        |
| Total non-current assets                                  | 889,809        | 757,437        |
| Total assets                                              | 1,009,432      | 932,353        |
| <b>Current liabilities</b>                                |                |                |
| Trade and other payables                                  | 43,088         | 32,832         |
| Interest bearing liabilities                              | 3,107          | -              |
| Current tax liabilities                                   | 6,013          | 3,556          |
| Provisions                                                | 3,514          | 4,397          |
| Liabilities held for sale                                 | -              | 815            |
| Total current liabilities                                 | 55,722         | 41,600         |
| <b>Non-current liabilities</b>                            |                |                |
| Interest bearing liabilities                              | 178,012        | 141,617        |
| Deferred tax liabilities                                  | 13,786         | 10,682         |
| Provisions                                                | 861            | 237            |
| Total non-current liabilities                             | 192,659        | 152,536        |
| Total liabilities                                         | 248,381        | 194,136        |
| Net assets                                                | 761,051        | 738,217        |
| <b>Equity</b>                                             |                |                |
| Issued capital                                            | 686,191        | 685,465        |
| Share based payment reserve                               | 6,462          | 2,728          |
| Reserves                                                  | (14,767)       | (14,101)       |
| Retained earnings                                         | 83,165         | 64,125         |
| Total equity attributable to equity holders of the parent | 761,051        | 738,217        |

## Directors' Declaration

1. In the opinion of the Directors of Emeco Holdings Limited (the "Company"):
  - (a) the consolidated financial statements and notes as set out on pages 53 to 132, and Remuneration report in the Directors' report, set out on pages 33 to 50 are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the group entities identified in Note 38 will be able to meet any obligation or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.
3. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2011.
4. The Directors draw attention to note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Perth, 22nd day of August 2011

Signed in accordance with a resolution of the Directors:



**Keith Gordon**  
Managing Director





## **Independent auditor's report to the members of Emeco Holdings Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Emeco Holdings Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2011, and consolidated statement of comprehensive income and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 38 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

#### *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. 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 control. 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 performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

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 complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's opinion*

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

### **Report on the remuneration report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. 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 auditing standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Emeco Holdings Limited for the year ended 30 June 2011, complies with Section 300A of the *Corporations Act 2001*.

*KPMG.*

KPMG

R Gambitta  
*Partner*

Perth  
22 August 2011