Production Optimisation Technology

Emeco Holdings Limited and its Controlled Entities

ABN 89 112 188 815

Interim Financial Report
For the half year ended 31 December 2016

Contents

Directors' Report
31 December 2016

The directors of Emeco Holdings Limited (**Company**) submit this report in respect of the half year financial period ended 31 December 2016 and the review report thereon.

Directors
The following persons were directors of Emeco Holdings Limited during the half year and up to the date of this report:

Director	Date of Appointment
Non-executive	
John Cahill	15/09/2008
Peter Richards (Appointed Chair 1 January 2016)	14/06/2010
Erica Smyth	15/12/2011
Executive	
Ian Testrow (Managing Director & Chief Executive Officer)	20/08/2015
Gregory Hawkins (Executive Director, Finance, ceased role on 19 August 2016)	20/08/2015

Mr Peter Richards stood for re-election as non-executive director at the Company's annual general meeting held on 12 and 14 December 2016. Mr Richards' re-election was approved.

Financial performance
Emeco Holdings Limited and its Controlled Entities (**Group**) achieved a net loss after tax for the half year ended 31 December 2016 of $31,346,000 (2015: loss $107,158,000) with total revenue of $87,783,000 (2015: $109,074,000).

Dividends
No dividends have been declared or paid during 1H17 (1H16: Nil cents ordinary dividend per share).

Directors' report (continued)
31 December 2016

Review of operations

A$ millions	Operating results (3) 1H17	Operating results (3) 1H16	Statutory results 1H17	Statutory results 1H16
Revenue	87.8	109.1	87.8	109.1
EBITDA (4)	33.6	23.2	31.4	(79.6)
EBIT (4)	3.5	(12.9)	1.4	(115.7)
NPAT	(28.5)	(4.2)	(31.3)	(107.2)
EBITDA margin	38.3%	21.3%	35.7%	(73.0)%
EBIT margin	3.9%	(11.8)%	1.6%	(106.0)%

Note:
1. Significant items have been excluded from the statutory result to aid the comparability and usefulness of the financial information. This adjusted information (operating results) enables users to better understand the underlying financial performance of the business in the current period.
2. Operating and statutory results exclude profit from discontinued operations.
3. Operating results are non-IFRS.
4. EBITDA: Earnings before interest, tax, depreciation and amortization; EBIT: Earnings before interest and tax. These measures are non-IFRS.

Operating results to statutory results reconciliation

A$ millions	Tangible asset impairments	Redundancy	Acquisition costs	Tax effect	NPAT
Operating					(28.5)
Australia	0.4	(0.1)	(2.8)	(0.6)	(3.1)
Canada	0.3	0.0	0.0	(0.1)	0.2
Chile	0.5	(0.3)	0.0	(0.1)	0.1
Statutory	1.2	(0.4)	(2.8)	(0.8)	(31.3)

The following non-operating adjustments have been made to the statutory results:

Tangible asset impairments: The reversal of impairment relates to assets previously impaired to their assessed fair market value less costs to sell and designated as held for sale being sold during the period at an amount greater than their written down value.

Redundancies: A redundancy program was undertaken across the Australian and Chilean businesses during 1H17 as part of restructuring initiatives, resulting in costs totalling $0.4 million before tax.

Acquisition costs: During 1H17 Emeco incurred costs totalling $2.8 million in relation to the pending acquisition of the Andy's and Orionstone businesses.

Directors' report (continued)
31 December 2016

Operating results
Operating net profit after tax (**NPAT**) was a loss of $28.5 million for the half year ended 31 December 2016 (1H17), a decrease of $24.3 million versus the prior corresponding period (**PCP**).

Group operating revenue of $87.8 million for 1H17 was down compared to PCP due to the restructuring of the Canadian business. Rental revenue fell 14% to $80.0 million (1H16: $93.1million), and maintenance services revenue fell 47% to $6.9 million (1H16: $13.1 million). Although the Group experienced a fall in revenue, operating EBITDA and operating EBIT margins improved to 38.0% (1H16: 21.3%) and 3.9% (1H16: negative 11.8%) respectively, driven by cost management and operational excellence improvements. Operating EBITDA increased $10.4 million compared to the PCP to $33.6 million and the Group returned to positive EBIT of $3.5 million for the first time since 2H13.

Cash flows from continuing operating activities of $17.7 million, was down from $55.2 million PCP, driven by lower revenues and lower receipts from derivatives sold. Net capital expenditure outflow of $6.9 million was down from a $13.0 million in the PCP primarily due to greater management of machinery and the utilisation of previously unutilised fleet. Additional costs were incurred in 1H16 related to returning the fleet to work.

Over the period Emeco closed its remaining hedging instruments releasing $15.2 million. No dividends were declared or paid during the period.

The Group's total debt increased from $390.2 million at 30 June 2016 to $396.7 million at 31 December 2016 driven by a depreciation of the Australian dollar against the US dollar denominated 144A notes. The Group's net debt decreased over this period from $365.4 million to $362.9 million due to an increase in cash held by the Group. Net debt comprised total debt of $396.7 million less cash of $33.8 million.

Significant events occurring after half year end
On 3 January 2017, Emeco announced the signing of a revised restructuring support agreement (**Revised RSA**) after obtaining the support of noteholders who had not initially supported the recapitalisation of the business and the merger with Orionstone Holdings Pty Ltd and Andy's Earthmovers (Asia Pacific) Pty Ltd (**Transaction**). The Transaction will be voted on by shareholders and noteholders at an extraordinary general meeting and creditor's meeting, respectively, on 13 March 2017. The Company directs shareholders to the Company's website for further details of the Transaction.

Other than noted above, the directors are of the opinion that there were no events subsequent to 31 December 2016 that had a material impact on the business.

Lead auditor's independence declaration
The lead auditor's independence declaration is set out on page 7 and forms part of the director's report to the half year ended 31 December 2016.

Directors' report (continued)
31 December 2016

Rounding of amounts
The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The consolidated interim financial report was approved by the board of directors on 27 February 2017.

This report is made in accordance with a resolution of directors.

Ian Testrow
Managing Director
Perth 27 February 2017

Deloitte.

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The Board of Directors
Emeco Holdings Limited
Level 3, 71 Walters Drive
Osborne Park WA 6017

27 February 2017

Dear Board Members

Emeco Holdings Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Emeco Holdings Limited.

As lead audit partner for the review of the interim financial report of Emeco Holdings Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
Partner
Chartered Accountants

Emeco Holdings Limited and its Controlled Entities

Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2016

	Note	31 December 2016 $'000	31 December 2015 $'000
Continuing operations			
Revenue from rental income		80,040	93,142
Revenue from the sale of machines and parts		861	2,890
Revenue from maintenance services		6,882	13,042
		87,783	109,074
Changes in machinery and parts inventory		(2,392)	(4,816)
Repairs and maintenance		(27,334)	(37,883)
Employee expenses		(10,229)	(21,890)
Hired in equipment and labour		(6,873)	(11,116)
Gross profit		40,955	33,369
Other income		1,485	655
Other expenses	5	(12,367)	(12,897)
Impairment of tangible assets	9	1,359	(100,665)
Depreciation expense		(29,726)	(36,071)
Amortisation expense		(324)	(27)
Finance income	6	15,519	80,331
Finance costs	6	(23,712)	(35,011)
Net foreign exchange losses	6	(24,535)	(49,003)
Loss before tax expense		(31,346)	(119,319)
Tax benefit/(expense)		-	12,161
Loss from continuing operations		(31,346)	(107,158)
Discontinued operations			
Profit from discontinued operations (net of tax)	7	-	732
Profit from discontinued operations		-	732
Loss for the period		(31,346)	(106,426)
Other comprehensive (loss)/income			
Items that are or may be reclassified to profit and loss:			
Foreign currency translation differences for foreign operations		12,796	(1,203)
Effective portion of changes in fair value of cash flow hedges (net of tax)		(12,354)	13,567
Total other comprehensive income/(loss) for the period		442	12,364
Total comprehensive income/(loss) for the period		(30,904)	(94,062)

The condensed consolidated interim statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 28.

Emeco Holdings Limited and its Controlled Entities

Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income (continued)

For the six months ended 31 December 2016

	2016 $'000	2015 $'000
Loss attributable to:		
Owners of the Company	(31,346)	(106,426)
Loss for the period	(31,346)	(106,426)
Total comprehensive loss attributable to:		
Owners of the Company	(30,904)	(94,062)
Total comprehensive loss for the period	(30,904)	(94,062)

	2016 Cents	2015 Cents
Earnings per share:		
Basic loss per share	(5.23)	(17.75)
Diluted loss per share	(5.23)	(17.75)
Earnings per share from continuing operations:		
Basic loss per share	(5.23)	(17.87)
Diluted loss per share	(5.23)	(17.87)

The condensed consolidated interim statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 28.

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Emeco Holdings Limited and its Controlled Entities
Condensed Consolidated Interim Statement of Financial Position
as at 31 December 2016

	Note	31 December 2016 $'000	30 June 2016 $'000
Current assets			
Cash assets		33,814	24,854
Trade and other receivables		49,405	37,734
Derivatives financial instruments	13	-	6,315
Inventories		5,499	5,333
Prepayments		9,592	1,832
Assets held for sale	8	6,728	30,728
Total current assets		105,038	106,796
Non-current assets			
Trade and other receivables		4,021	6,234
Derivatives financial instruments	13	-	12,629
Intangible assets and goodwill		2,950	2,344
Property, plant and equipment	9	283,081	280,182
Deferred tax assets		19,790	19,507
Total non-current assets		309,842	320,896
Total assets		414,880	427,692
Current liabilities			
Trade and other payables		48,334	38,035
Liabilities directly associated with assets classified as held for sale	8	265	883
Interest bearing liabilities	12	1,610	4,579
Provisions		3,246	3,469
Total current liabilities		53,455	46,966
Non-current liabilities			
Interest bearing liabilities	12	384,725	373,239
Provisions		1,283	1,490
Total non-current liabilities		386,008	374,729
Total liabilities		439,463	421,695
Net assets/(net asset deficiency)		(24,583)	5,997
Equity			
Share capital		593,616	593,616
Reserves		13,271	12,505
Accumulated losses		(631,470)	(600,124)
Total equity attributable to equity holders of the Company		(24,583)	5,997

The condensed consolidated interim 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 13 to 28.

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Emeco Holdings Limited and its Controlled Entities

Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2016

	Share capital $'000	Share based payment reserve $'000	Hedging reserve $'000	Foreign currency translation reserve $'000	Reserve for own shares $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2015	593,616	15,247	(8,219)	16,196	(20,634)	(374,735)	221,471
Total comprehensive income for the period							
Profit or (loss)	-	-	-	-	-	(106,426)	(106,426)
Other comprehensive income							
Foreign currency translation differences	-	-	(4,413)	3,210	-	-	(1,203)
Effective portion of changes in fair value of cash flow hedge, net of tax	-	-	13,567	-	-	-	13,567
Total comprehensive income/(loss) for the period	-	-	9,154	3,210	-	(106,426)	(94,062)
Transactions with owners, recorded directly							
Contributions by and distributions to owners							
Share-based payment transactions	-	1,448	-	-	-	-	1,448
Total contributions by and distributions to owners	-	1,448	-	-	-	-	1,448
Balance at 31 December 2015	593,616	16,695	935	19,406	(20,634)	(481,161)	128,857

	Share capital $'000	Share based payment reserve $'000	Hedging reserve $'000	Foreign currency translation reserve $'000	Reserve for own shares $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2016	593,616	16,744	345	16,050	(20,634)	(600,124)	5,997
Total comprehensive income for the period							
Profit or (loss)	-	-	-	-	-	(31,346)	(31,346)
Other comprehensive income							
Foreign currency translation differences	-	-	12,009	787	-	-	12,796
Effective portion of changes in fair value of cash flow hedge, net of tax	-	-	(12,354)	-	-	-	(12,354)
Total comprehensive income/(loss) for the period	-	-	(345)	787	-	(31,346)	(30,904)
Transactions with owners, recorded directly							
Contributions by and distributions to owners							
Share-based payment transactions	-	324	-	-	-	-	324
Total contributions by and distributions to owners	-	324	-	-	-	-	324
Balance at 31 December 2016	593,616	17,068	-	16,837	(20,634)	(631,470)	(24,583)

The condensed consolidated interim statement of changes to equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 28.

Emeco Holdings Limited and its Controlled Entities

Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2016

	31 December 2016 $'000	31 December 2015 $'000
Cash flows from operating activities		
Cash receipts from customers	80,370	115,623
Cash paid to suppliers and employees	(60,855)	(90,420)
Cash generated from operations	19,515	25,203
Finance income received	60	379
Finance expense paid (1)	(17,119)	(24,722)
Taxes received	-	3,965
Cash receipts from derivatives sold (1)	15,206	48,167
Net cash inflow from operating activities of discontinued operations	-	2,174
Net cash from operating activities	17,662	55,166
Cash flows from investing activities		
Proceeds on disposal of non-current assets	5,120	8,751
Payment for property, plant and equipment	(12,045)	(21,820)
Net cash inflow from investing activities of discontinued operations	-	-
Net cash from/(used in) investing activities	(6,925)	(13,069)
Cash flows from financing activities		
Repurchase of issued debt (1)	-	(41,971)
Payment of finance lease liabilities	(4,374)	(3,958)
Net cash outflow from financing activities of discontinued operations	-	-
Net cash used in financing activities	(4,374)	(45,929)
Net increase/(decrease) in cash	6,363	(3,832)
Cash at beginning of the period	24,854	27,800
Effects of exchange rate fluctuations on cash held	2,597	485
Cash at the end of the financial period	33,814	24,453

(1) Refer to note 6 for further information. Finance expense paid in the 6 months ended 31 December 2015 includes a $1,878,000 pro-rata coupon payment in relation to 144A notes repurchased during the period.

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to the financial report set out on pages 13 to 28.

1. Reporting entity

Emeco Holdings Limited (**Company**) is a for profit company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2016 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 industries.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2016 are available on the Company's web site at www.emecogroup.com.

2. Basis of preparation

(a) Statement of compliance

The condensed consolidated interim financial report has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*.

They do not include all of the information required for full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2016.

This condensed consolidated interim financial report was approved by the board of directors on 27 February 2017.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(b) Estimates and Judgements

Preparing the condensed consolidated interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key source of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2016.

Recognition of tax losses

In accordance with the Company's accounting policies for deferred taxes, 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, capital structure 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.

Impairment of assets

Refer to note 9 for details of the judgements made in determining the recoverable value of the Company's assets as part of the impairment assessment undertaken at 31 December 2016.

2. Significant accounting policies (continued)

(c) Going Concern

The directors note that as at 31 December 2016 the Group has positive net current assets of $51,583,000. Negative movements in the AUD/USD exchange rate has resulted in an increase in non-current interest bearing liabilities in relation to the Groups US$282,720,000 144A notes resulting in a net asset deficiency of $24,583,000. The Group has also made a net loss after tax of $30,904,000 during the period.

Notwithstanding, the Interim Financial Report for the half year ended 31 December 2016 has been prepared on a going concern basis. This assumes the Company and the Group will be able to realise their assets and discharge their liabilities in the normal course of business.

The directors believe this is appropriate based on the actions they have taken during the period.

After obtaining the support of noteholders who had not initially supported the recapitalisation of the business and the merger with Orionstone Holdings Pty Ltd (**Orionstone**) and Andy's Earthmovers (Asia Pacific) Pty Ltd (**Andy's**) (together, **Transaction**), on 30 December 2016, all parties to the initial restructuring agreement dated 23 September 2016 (**Original RSA**) entered into a revised restructuring support agreement (**Revised RSA**).

Completing the Transaction will enable the Group to reduce its leverage and increase earnings through the acquisition of Orionstone and Andy's and refinancing of its interest bearing liabilities extending maturity to FY22.

Whilst the Transaction still requires creditor, court and shareholder approval, the directors are confident it will be successfully finalised on the basis that:

- The Court had previously approved the transaction pursuant to the Original RSA which is not significantly different to the Transaction under the Revised RSA; and
- The Company has successfully renegotiated the Revised RSA which now has the support of 76% of noteholders.

If the Transaction is not completed, the directors continue to believe the going concern assumption is appropriate on the basis that the current 144A notes do not mature until May 2019 and the current cash reserves along with forecasted cash flows are sufficient to cover the Company's obligations including the payment of interest on the existing notes obligations in March and September 2017.

3. Significant accounting policies

There have been no new and revised standards that have had a significant impact on the measurement and disclosure of the Group.

4. Segment reporting

The Group has three (December 2015: four) 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 geographic region. 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:

Australia	Provides a wide range of earthmoving equipment and maintenance services to customers in Australia.
Canada	Provides a wide range of earthmoving equipment and maintenance services to customers who are predominately in Canada.
Chile	Provides a wide range of earthmoving equipment and maintenance services to customers in Chile.
Indonesia (Discontinued)	Provided a wide range of earthmoving equipment and maintenance services to customers in Indonesia. This segment was discontinued in May 2014.

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 earnings before interest, income tax, depreciation and amortisation 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.

4. Segment reporting (continued)

Information about reportable segments 2016

	Australia	Canada	Chile	Total
	$'000	$'000	$'000	$'000
Six months ended 31 December 2016				
Revenue from external customers	67,594	6,021	14,168	87,783
Other income	255	1,016	214	1,485
Segment earnings before interest, tax, depreciation and amortisation	**20,901**	**7,413**	**6,195**	**34,509**
Depreciation and amortisation	(20,631)	(3,955)	(5,464)	(30,050)
Segment result (EBIT)	**270**	**3,458**	**731**	**4,459**
Corporate overheads				(3,077)
EBIT				**1,382**
Finance expense (net)				(8,193)
Foreign exchange movements				(24,535)
Net loss before tax				**(31,346)**
Tax expense				-
Net loss after tax				**(31,346)**

Information about reportable segments 2015

	Australia	Canada	Chile	Indonesia	Total
	$'000	$'000	$'000	$'000	$'000
Six months ended 31 December 2015					
Revenue from external customers	61,738	22,806	22,297	-	106,841
Other income	2,477	136	141	-	2,754
					-
Segment earnings before interest, tax, depreciation and amortisation	**15,168**	**(101,251)**	**7,974**	**736**	**(77,373)**
Depreciation and amortisation	(21,862)	(3,845)	(10,392)	-	(36,099)
Segment result (EBIT)	**(6,694)**	**(105,096)**	**(2,418)**	**736**	**(113,472)**
Corporate overheads					(1,432)
EBIT					**(114,904)**
Interest (net)					45,320
Foreign exchange movements					(49,003)
Net loss before tax					**(118,587)**
Tax expense					12,161
Net loss after tax					**(106,426)**

Emeco Holdings Limited and its Controlled Entities
Notes to the Condensed Consolidated Interim Financial Report
For the half year ended 31 December 2016

4. Segment reporting (continued)

Major customer
For the six months ended 31 December 2016 the Group had three (2015: three) major customers that represented $42,103,000 (2015: $32,147,000) of the Group's total revenues, as indicated below:

Segment	31 December 2016 $'000	31 December 2015 $'000
Australia	22,915	10,007
Canada	5,590	12,163
Chile	13,598	9,977
Total	42,103	32,147

5. Other expenses

	31 December 2016 $'000	31 December 2015 $'000
Other expenses:		
- bad and doubtful debts/(reversal)	(658)	1,611
- insurance	857	1,519
- motor vehicles	729	1,707
- rental expense	1,678	1,910
- safety	215	465
- travel and subsistence expense	1,202	3,064
- telecommunications	448	641
- workshop consumables, tooling and labour	397	524
- corporate development expenses	2,754	-
- other expenses	4,745	1,456
	12,367	12,897

Emeco Holdings Limited and its Controlled Entities
Notes to the Condensed Consolidated Interim Financial Report
For the half year ended 31 December 2016

6. Items included in profit before income tax expense

	31 December 2016 $'000	31 December 2015 $'000
Finance costs:		
- interest expense	19,796	29,473
- amortisation of debt establishment costs using effective interest rate	2,620	2,185
- write off facility costs [2]	-	1,251
- hedge losses	1,296	2,102
Net financial costs	23,712	35,011
Finance income:		
- interest income	(165)	(501)
- hedge gains [1]	(15,354)	(48,167)
- discount on repurchased debt [1]	-	(31,663)
Net financial income	(15,519)	(80,331)
Foreign exchange (gain)/loss:		
Net realised foreign exchange (gain)/loss	2,923	331
Net unrealised foreign exchange (gain)/loss	21,612	48,672
Net foreign exchange (gain)/loss	24,535	49,003

(1) In September 2016, the Group closed out US$71,500,000 face value of cross currency interest rate swaps which generated a cash inflow of A$15,206,000 (US$11,794,000).
In December 2015, the Group closed out US$138,500,000 face value of cross currency interest rate swaps which generated a cash inflow of A$48,167,000. These proceeds were used to finance the purchase of US$52,280,000 144A notes for consideration of A$41,971,000 (US$29,799,000) with a resulting gain on repurchase of A$31,663,000.

(2) This balance relates to accelerated debt establishment costs expensed in relation to the repurchase of US$52,280,000 144A notes in December 2015.

7. Discontinued operations

In May 2014 the board resolved to exit the Indonesian business after a strategic review of the operations. The board's decision to close this business was to address the underperformance in returns being generated combined with the unfavourable conditions in the Indonesian mining industry.

	31 December 2016 $'000	31 December 2015 $'000
Losses of discontinued operations		
Other income	-	1,101
Impairment of property, plant and equipment	-	(355)
Employee expenses	-	(10)
EBITDA	-	736
Depreciation	-	-
EBIT	-	736
Net foreign exchange losses	-	(4)
Income tax benefit	-	-
Profit for the period	-	732

The profit from discontinued operation of $Nil (six months ended 31 December 2015: profit $732,000) is attributable entirely to the owners of the Company.

	31 December 2016 $'000	31 December 2015 $'000
Cash flows from/(used in) discontinued operation		
Net cash from/(used in) operating activities	-	2,174
Net cash from investing activities	-	-
Net cash from/(used in) financing activities	-	-
Net cash from discontinued operation	-	2,174

8. Disposal groups and non-current assets held for sale

At 31 December 2016, the non-current assets held for sale comprised assets of $6,728,000 (30 June 2016: $30,728,000). These relate to plant and equipment from Australia, Canada and Chile. These assets were impaired by $Nil (30 June 2016: $5,801,000) and measured at the lower of fair value less costs to sell and carrying amount at 31 December 2016. The Group continues to actively market these assets and they are expected to be disposed of within 12 months.

	31 December 2016 $'000	30 June 2016 $'000
Assets classified as held for sale		
Property, plant and equipment	6,728	30,728
	6,728	30,728
Liabilities directly associated with assets classified as held for sale		
Continuing operations	(265)	(883)
	(265)	(883)
Net assets classified as held for sale	6,463	29,845

Liabilities directly associated with assets classified as held for sale relate to assets designated as held for sale that have outstanding finance lease repayments remaining. All remaining payments are due within six months.

9. Property, plant and equipment

	31 December 2016 $'000	30 June 2016 $'000
Freehold land and buildings - at cost	5,987	6,046
Less: Accumulated depreciation	(4,093)	(3,904)
	1,894	2,142
Leasehold improvements - at cost	4,866	4,869
Less: Accumulated depreciation	(4,067)	(3,935)
	799	934
Plant and equipment - at cost	657,863	622,142
Less: Accumulated depreciation	(388,507)	(357,505)
	269,356	264,637
Leased plant and equipment - at capitalised cost	23,420	23,139
Less: Accumulated depreciation	(15,042)	(13,941)
	8,378	9,198
Furniture, fixtures and fittings - at cost	673	667
Less: Accumulated depreciation	(622)	(605)
	51	62
Office equipment - at cost	2,656	2,378
Less: Accumulated depreciation	(2,132)	(2,038)
	524	340
Motor vehicles - at cost	7,120	7,800
Less: Accumulated depreciation	(6,389)	(6,673)
	731	1,127
Sundry plant - at cost	10,815	10,812
Less: Accumulated depreciation	(9,467)	(9,070)
	1,348	1,742
Total property, plant and equipment - net book value	283,081	280,182

9. Property, plant and equipment (continued)

Acquisition and disposals

During the six months ended 31 December 2016, the Group acquired assets with a cost of $12,045,000 (six months ended 31 December 2015: $21,820,000). Included in this amount is the acquisition of parts inventory to the value of $64,000 (six months ended 31 December 2015: $803,000).

Assets with a carrying amount of $4,395,000 (six months ended 31 December 2015: $8,616,000), which comprised of rental assets transferred to non-current assets held for sale, were disposed of during the six months ended 31 December 2016, resulting in a gain on disposal of $287,000 for continuing and discontinued operations (six months ended 31 December 2015: $135,000). This is included in other income in the condensed consolidated interim statement of profit or loss and other comprehensive income.

During the six months ended 31 December 2016, assets with a carrying amount of $2,820,000 returned to operations, resulting in a transfer from non-current assets held for sale to property, plant and equipment.

Impairment

During the six months ended 31 December 2016, the Group recognised a total impairment reversal of $1,359,000 (six months ended 31 December 2015 impairment expense: $100,665,000). This related to the transfer of assets back to the rental fleet from non-current assets held for sale that had previously been impaired under the fair value less costs of disposal methodology.

In determining if any further impairment adjustments are required at 31 December 2016, management have considered various factors including the Group's performance compared to budget and have determined there are no impairment triggers noted at this time.

Capital commitments

During the six months ended 31 December 2016, the Group has not entered into any significant commitments that are payable within one year (six months ended 31 December 2015: $Nil).

10. Key management personnel

The Company appointed Ms Justine Lea as Chief Financial Officer on 24 October 2016.

Mr Gregory Hawkins ceased role as Executive Director, Finance on 19 August 2016.

With the exception of the above there were no other changes in key management personnel during the six months ended 31 December 2016 as other arrangements with key management have remained consistent since 30 June 2016.

11. Equity

Dividends

No dividends were paid or declared since the end of FY16 (six months ended 31 December 2015: Nil cents per share).

Franking account

	31 December 2016 $'000	30 June 2016 $'000
Dividend franking account		
30% franking credits available to shareholders of Emeco Holdings Limited for subsequent financial years	25,518	25,518

The above available amounts are based on the balance of the dividend franking at 31 December 2016 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 31 December 2016;
(c) franking credits that will arise from the receipt of dividends recognised as receivable by the tax consolidated group at 31 December 2016; 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 $Nil (2015: $Nil). In accordance with the tax consolidated legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of $25,518,000 (2015: $25,518,000) franking credits.

12. Interest bearing liabilities

	31 December 2016 $'000	30 June 2016 $'000
Current		
Amortised cost		
Insurance financing	-	535
Lease liabilities- secured	1,610	4,044
	1,610	4,579
Non-current		
Amortised costs		
OID [1]	(2,245)	(2,743)
Notes issue - secured	390,712	284,433
Notes issue - secured [2]	-	96,283
Lease liabilities - secured	4,143	4,962
Debt raising costs (asset backed loan)	(999)	(1,310)
Debt raising costs [2]	-	(2,121)
Debt raising costs	(6,886)	(6,265)
	384,725	373,239

(1) Originating issue discount – the discount from par value at the time the 144A notes were issued. This is amortised using the effective interest rate method over the life of the notes.

(2) Carried at amortised cost with movements in fair value of the underlying hedge item recorded in the profit and loss statement.

Bank loans

On 31 December 2014, an A$75,000,000 asset backed loan was established. The facility matures in December 2017 and will be available for general corporate purposes. When utilised, the nominal interest rate is equal to the aggregate of the margin of 1.75% per annum and bank bill swap bid rate (**BBSY**). The asset backed loan has no maintenance covenants unless the facility is more than 50% drawn, at which stage it requires Emeco to have an income cover ratio of 1.25 times and gearing of less than 65%. At 31 December 2016 the Group has drawn $Nil of the available facility but had utilised $11,806,000 in bank guarantees.

12. Interest bearing liabilities (continued)

Working capital facility

In December 2014, the Group entered into a facility agreement comprising a credit card facility with a limit of A$750,000 and bank guarantee where the aggregate face value shall not exceed A$866,013. The facility is secured via a cash cover account. The bank guarantee is subject to a fee of 3% per annum on the face value of the bank guarantee. At 31 December 2016 the facilities were utilised at A$866,013.

144A notes issue

In March 2014, the Group issued secured fixed interest notes in the 144A high yield bond market comprising US$335,000,000 which matures on 17 May 2019. The nominal interest rate is 9.875%. Under the terms of the note agreement, the noteholders hold a joint fixed and floating charge with the syndicated bank group over the assets and undertakings of the Group. The Group held face value US$52,280,000 of notes at 30 June 2016 which it had repurchased on market in December 2015. These notes were cancelled on 23 September 2016 with A$390,713,000/US$282,720,000 face value of notes outstanding at 31 December 2016. Of the notes outstanding, US$Nil (June 2016: US$71,500,000) is measured at amortised cost. The remaining notes are also measured at amortised cost and are subject to adjustment for the impact of fair value movements on the hedged risk.

The Group designated derivatives (cross currency interest rate swaps) as hedge instruments against this underlying debt. All associated derivatives were closed out as at 31 December 2016.

Finance leases

The Group has finance lease facilities totalling A$6,018,000 (30 June 2016 A$9,006,000) which have various maturities up to November 2020. Assets leased under the facility are secured by the assets leased.

13. Financial instruments

Hedging of fluctuations in interest rates

The Group closed out its remaining interest rate swaps in September 2016 for consideration of A$15,206,000 (US$11,794,000). The Group is currently unhedged in its exposure in movements in the exchange rate against its US dollar denominated 144A notes.

	31 December 2016 $'000	30 June 2016 $'000
Fixed interest rate swaps		
Australian dollars 144A	-	3,173
Variable interest rate swaps		
Fixed to floating (USD $40m)	-	15,771
	-	18,944

13. Financial instruments (continued)

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the condensed consolidated interim statement of financial position, are as follows:

	31 December 2016		30 June 2016	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Assets carried at fair value				
Interest rate swaps used for hedging	-	-	18,944	18,944
	-	-	18,944	18,944
Assets carried at amortised cost				
Receivables	49,405	49,405	37,734	37,734
Cash and cash equivalents	33,814	33,814	24,854	24,854
	83,219	83,219	62,588	62,588
Liabilities carried at amortised cost				
Secured bank loans	999	-	1,310	-
Secured notes issue	(381,581)	(285,221)	(278,167)	(284,433)
Secured notes issue[(1)]	-	-	(91,420)	(96,283)
Insurance financing	-	-	(535)	(535)
Finance lease liabilities	(6,018)	(6,514)	(9,006)	(9,692)
Trade and other payables	(48,334)	(48,334)	(38,035)	(38,035)
	(434,934)	(340,069)	(415,853)	(428,978)

(1) Carried at amortised cost with movements in fair value of the underlying hedge item recorded in the profit and loss statement.

Fair value hierarchy

All the Group's financial instruments carried at fair value would be categorised at level two 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.

14. Contingent liabilities

The Group has guaranteed the repayments of $13,216,000 (30 June 2016: $11,504,000) in relation to performance guarantees and office premises.

The Group has entered in to success fee agreements dependent on the outcome of the revised structuring support agreement expected to be completed in March 2016. It is estimated the costs dependent on the successful outcome will amount to $17,000,000.

15. Subsequent events

On 3 January 2017, Emeco announced the signing of the Revised RSA after obtaining the support of noteholders who had not initially supported the Transaction. The Transaction will be voted on by shareholders and noteholders at an extraordinary general meeting and creditor's meeting, respectively, on 13 March 2017. The Company directs shareholders to the Company's website for further details of the Transaction.

Other than noted above, the directors are of the opinion that there were no events subsequent to 31 December 2016 that had a material impact on the business.

Directors' Declaration

In the opinion of the directors of Emeco Holdings Limited (**Company**):

1. the financial report and notes, set out on pages 8 to 28, are in accordance with the *Corporations Act 2001*, including:

   (a) giving a true and fair view of the financial position of the Group as at 31 December 2016 and of its performance for the half year ended on that date; and

   (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth on 27 day of February 2017

Signed in accordance with a resolution of the directors:

Ian Testrow
Managing Director

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Review Report to the members of Emeco Holdings Limited

We have reviewed the accompanying half-year financial report of Emeco Holdings Limited, which comprises the condensed consolidated interim statement of financial position as at 31 December 2016, and the condensed consolidated interim statement of profit or loss and other comprehensive income, the condensed consolidated interim statement of cash flows and the condensed consolidated interim statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 8 to 29.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Emeco Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Deloitte.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Emeco Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Emeco Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
Partner
Chartered Accountants
Perth, 27 February 2017