Emeco

Celebrating 1972-2012 40 YEARS

MOVING AHEAD

2012 ANNUAL REPORT

YEAR IN REVIEW

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FINANCIAL REPORT

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COVER PHOTO /

AS PART OF AN ONSITE FLEET OF MORE THAN 30 PIECES OF EQUIPMENT, THIS TRUCK HELPS A THERMAL COAL MINER IN QUEENSLAND, AUSTRALIA, ACHIEVE PRODUCTION TARGETS OF 12 MILLION TONNES PER ANNUM.

WHO WE ARE

EMECO PROVIDES SAFE, RELIABLE AND MAINTAINED EQUIPMENT RENTAL SOLUTIONS TO THE GLOBAL MINING INDUSTRY

YEAR ESTABLISHED
1972

NUMBER OF EMPLOYEES*
763

SIZE OF FLEET*
907

FY12 AVERAGE FLEET UTILISATION*
86%

*FIGURES CURRENT AS AT 30 JUNE, 2012

WHERE WE ARE GOING

OUR VISION

To contribute to a sustainable and productive mining industry and to provide a great workplace for our people and teams.

OUR VALUES

- **Collaboration**
- **Accountability**
- **Integrity**
- **Continuous Improvement**

OUR MISSION

To add value to our customers through cost effective equipment and service solutions.

We deliver sustainable financial returns by:

- **Behaving appropriately**
- **Building our capabilities**
- **Focusing on our customers**
- **Enhancing our service offering**

OUR FOCUS

BUSINESS STRATEGY
Our business strategy is based on the three pillars of:

- **Optimise the Core**
- **Sustainable Growth**
- **Consistent Value Creation for Shareholders**

PEOPLE STRATEGY
Our strategy for Emeco people (*Empower*) is about delivering a great place to work for all employees. We regularly survey Emeco people and review our internal human resource systems and processes to ensure we are continually focused on making a good place to work great.

COUNTRIES WE OPERATE IN

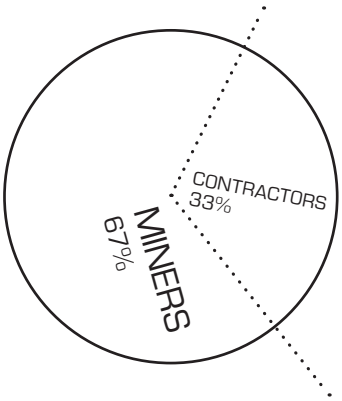
AUSTRALIA

INDONESIA

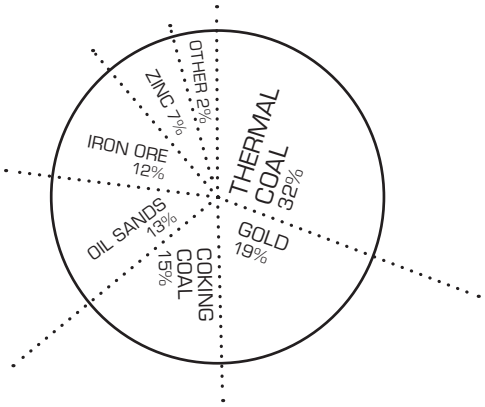
CANADA

CHILE

CUSTOMER MIX



RENTAL REVENUE BY COMMODITY



FLEET WEIGHTING

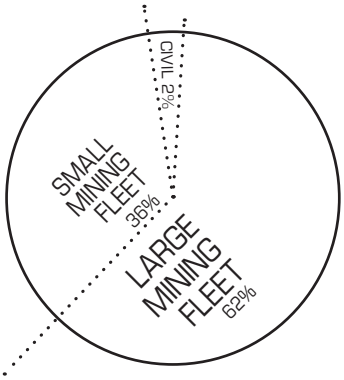


PHOTO /
EMECO PROVIDES FLEETS OF SAFE, RELIABLE, WELL-MAINTAINED RENTAL EQUIPMENT TO SUPPORT THE PRODUCTION NEEDS OF MINING COMPANIES, IN THIS CASE, A GOLD PRODUCER IN AUSTRALIA.

40 YEARS AND BETTER EQUIPPED THAN EVER BEFORE TO KEEP OUR CUSTOMERS MOVING

EMECO WAS FIRST ESTABLISHED IN AUSTRALIA IN 1972. FOR THE PAST 40 YEARS WE HAVE BEEN PROVIDING SAFE, RELIABLE, WELL-MAINTAINED EQUIPMENT SOLUTIONS TO THE GLOBAL MINING INDUSTRY.

Today, our experienced teams operate out of Australia, Indonesia, Canada and Chile, providing the highest levels of customer service and maintenance capabilities to safely deliver best-in-class equipment to the go line for our mining industry customers.

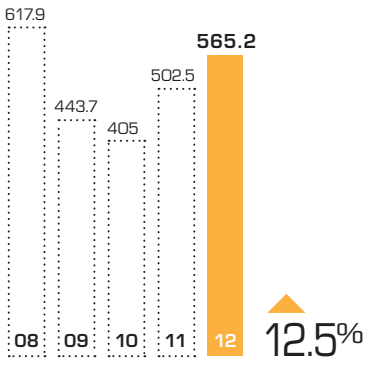
Our customers realise the following benefits by partnering with Emeco:

- Operational control of equipment
- Improved capital efficiency by renting versus purchasing
- The ability to retain site safety systems, processes and standards
- A tailored equipment rental solution with a range of maintenance options
- Access to Emeco's global fleet of approximately 1000 original equipment manufacturer machines

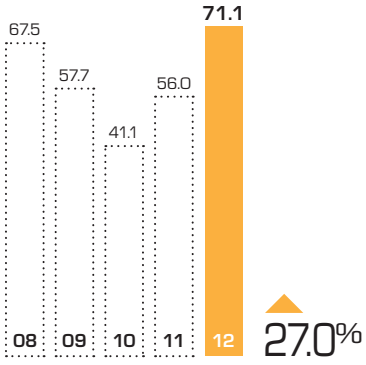
HIGHLIGHTS

FY12 TARGET	FY12 ACHIEVEMENT	
IMPROVE SHAREHOLDER RETURNS	THIRD CONSECUTIVE YEAR OF GROWTH. ROC IMPROVED TO 13.2% (FY11:11.3%, FY10: 8.3%)	✓
IMPROVE SAFETY PERFORMANCE	LTIFR IMPROVED BY 9%, MTIFR IMPROVED BY 4.5%, TRIFR IMPROVED BY 3.5% *Further reading page 17*	✓
DELIVER ON BUSINESS STRATEGY COMMITMENTS	SUSTAINABLE GROWTH ACHIEVED VIA CHILEAN STEP-OUT	✓
RECONFIGURE FLEET TOWARDS LARGE MINING EQUIPMENT	LARGE MINING FLEET INCREASED TO 62% (FROM 49%). SUITED TO MINE PRODUCTION ACTIVITIES	✓
MAINTAIN HIGH FLEET UTILISATION	GLOBAL FLEET UTILISATION AVERAGED 86% IN FY12 (FY11: 85%)	✓
DELIVER POSITIVE CASH FLOW BEFORE INVESTMENT	GENERATED OPERATING CASH FLOW LESS NET SUSTAINING CAPEX OF $114M	✓
STRENGTHEN BALANCE SHEET	GEARING MAINTAINED BELOW TARGET RANGE. US$140M USPP FUNDING PROVIDES MEDIUM TERM CERTAINTY	✓
ESTABLISH MEASURABLE APPROACH TO WORKPLACE DIVERSITY	DEVELOPED DIVERSITY ACTION PLAN AND SUBMITTED FIRST EQUAL OPPORTUNITY FOR WOMEN IN THE WORKPLACE REPORT *Further reading page 19*	✓
ESTABLISH GLOBAL APPROACH TO COMMUNITY PARTICIPATION	IMPLEMENTED GLOBAL COMMUNITY ENGAGEMENT AND AUSTRALIAN INDIGENOUS ENGAGEMENT STRATEGIES *Further reading page 20*	✓

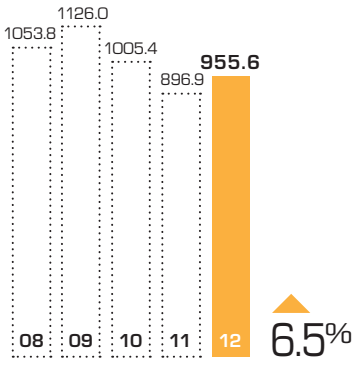
SALES REVENUE ($M)



OPERATING NPAT ($M)



INVESTED CAPITAL ($M)

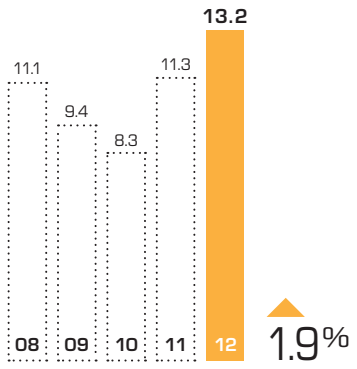


HTS

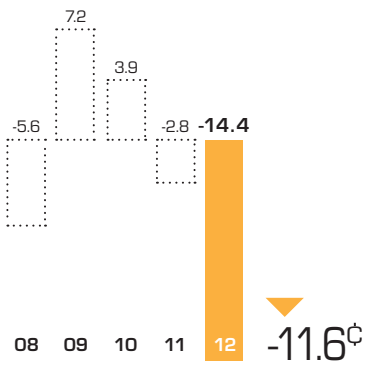
RESULTS SUMMARY

		2012	2011
KEY FINANCIALS			
Operating revenue	$m	565,170	502,495
Net profit before net interest and tax	$m	100,406	70,247
Net profit after tax	$m	71,120	56,004
Dividends	$m	37,874	63,124
Total assets	$m	1,216,116	981,152
Net debt	$m	386,393	297,005
Shareholders' equity	$m	640,387	602,234
Capital expenditure on property, plant and equipment and tangibles	$m	317,008	199,950
Depreciation and amortisation	$m	135,687	122,173
KEY SHARE DATA			
Earnings per share	cents	11.3	8.2
Ordinary dividends per share	cents	6.0	5.0
Net tangible assets per share	cents	73.9	68.0
Free cash flow per share	cents	-14.4	-2.8
KEY RATIOS			
Return on average invested capital	%	13.2	11.3
Gearing (net debt to EBITDA)	%	1.47	1.38

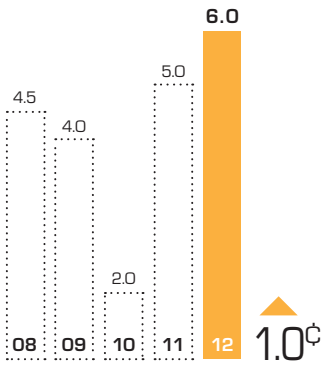
EBIT ROC (%)



FREE CASHFLOW PER SHARE (CPS)



ORDINARY DIVIDENDS (CPS)



ALEC BRENNAN

Organic growth initiatives underpin another year of improved financial performance

Investing in safety, the community and our people is key to building a sustainable business

Business well positioned to withstand volatility and pursue value creating opportunities that may arise

Dear Shareholder,

We are pleased to present the Emeco Holdings Limited Annual Report for financial year 2011/2012 (FY12).

OUR STRATEGIC FOCUS ON SUSTAINABLE GROWTH

Having completed the restructuring phase of our strategy in FY11, this last year has been focused on pursuing "sustainable growth" strategies from a strong foundation.

We made targeted investments in large mining equipment in our Australian and Canadian businesses and positioned the Indonesian business for fleet investment in FY13. The low cost high growth copper-producing region of Chile was identified as a market that is expected to provide another low risk opportunity to achieve value-creating growth for shareholders.

To underpin our growth strategy we have continued to lengthen our debt maturity which the completion of the US$140 million debt issuance in the US Private Placement Market provides.

DELIVERING IMPROVED RETURNS TO SHAREHOLDERS

Central to the Board's decision-making process is a firm focus on delivering quality returns to shareholders.

The restructuring and growth work has delivered another year of improved financial performance at Emeco with operating NPAT growing 27% and Return on Capital (ROC) increasing from 11.3% to 13.2% over FY12.

The Board amended the dividend policy in February 2012, increasing the payout ratio to 40–60% of annual operating NPAT, franked to the fullest extent possible. The Company delivered 20% growth in ordinary dividends in FY12, declaring 6.0 cents per share fully franked.

While we are continuing to pursue growth in FY13, our strong financial position has enabled us to announce an on-market share buyback program at a time when current share market volatility presents a value opportunity for the Company and its shareholders.

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OUR PEOPLE AND SUSTAINABILITY

Critical to the success of any leading business is the ability to attract and retain high calibre people. Empower, Emeco's people strategy, launched two years ago, is central to this objective. Empower has focused on developing a positive culture and delivering important initiatives around training and leadership development in FY12, which collectively contribute to a sustainable business.

We have this year published our second Sustainability Report which highlights the significant progress Emeco has made in areas such as diversity, the community and our people.

Further reading page 16

While we are focusing on diversity at all levels of the organisation, it was pleasing to welcome Emeco's first female director onto the Board in FY12. In her short time with the Company, Erica Smyth has been a significant contributor with both her deep experience in the mining industry and as a non-executive director.

Further reading page 19

We devoted greater resources towards engaging with our local communities in FY12. This included the establishment of a global approach to community participation and a new national partnership with Lifeline Australia (Lifeline). Lifeline provides crisis support, suicide prevention and mental health support services across Australia. People living and working in regional and remote locations are considered a high risk group for mental health issues and suicide, making this partnership particularly relevant for all Emeco stakeholders, their families and friends.

Further reading page 7 and 20

SAFETY REMAINS A KEY PRIORITY

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 to 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.

Further reading page 17

BUSINESS WELL POSITIONED FOR THE FUTURE

Despite a year of strong activity across the global mining industry, current macroeconomic factors are contributing to an emerging cautionary tone in parts of the industry. Furthermore, the industry has continued to be challenged by an evolving regulatory environment and a rising cost structure.

SS

In the year ahead we will be focused on maintaining strong business performance, retaining a disciplined approach to managing our balance sheet and maximising returns for shareholders.

While these factors could moderate activity in the short term, we expect continued growth in production activity and volumes over the medium term, which bodes well for Emeco.

Despite the current uncertainty, the business is well positioned strategically and financially to withstand future volatility and we will remain alert to value creating opportunities that may emerge over time. In the year ahead we will be focused on maintaining strong business performance, retaining a disciplined approach to managing our balance sheet and maximising returns for shareholders.

ALEC BRENNAN
CHAIRMAN

PHOTO / KEITH GORDON (MANAGING DIRECTOR, EMECO) WAS PLEASED TO MEET FIONA KALAF (LIFELINE, WESTERN AUSTRALIA) AND DISCUSS THE NEW PARTNERSHIP AND HOW EMECO WILL HELP LIFELINE TO SAVE LIVES OVERNIGHT.

OUR COMMUNITIES /

EMECO AND LIFELINE PARTNER TO SAVE LIVES OVERNIGHT

Lifeline provides crisis support services focusing on suicide prevention and access to mental health support services.

Lifeline has been operating its 13 11 14 crisis line with a predominantly volunteer workforce for the past 49 years. Over time, it has become increasingly difficult for Lifeline to find volunteers able to work the midnight to dawn shift, the time of night when many Australians are at their most vulnerable.

In 2011, Lifeline invested in a *Saving Lives Overnight* trial which involved paying Lifeline crisis supporters to work the midnight to 6am shift. This led to a 62% increase in the call answer rate from September 2010 and a 139% increase from the August 2011 call answer rate.

With Emeco's support, Lifeline is now able to employ more permanent team members to answer calls, to extend Lifeline's overnight shift by two hours and to redeploy volunteers who previously worked these shifts to more suitable hours, increasing Lifeline's national call answer capability.

Emeco people are also being educated about mental health and suicide prevention and will have the opportunity to support their local Lifeline centres through fundraising and volunteering activities.

KEITH GORDON

- ***Executed strategy delivering significantly improved shareholder returns***
- ***Strengthened the business during FY12 for a sustainable and successful future***
- ***Attractive growth prospects through Chile expansion***

OUR COMMITMENT TO SHAREHOLDERS

The objective of our business strategy since 2010 has been clear: *To deliver acceptable and sustainable returns to our shareholders.* During FY12, Emeco's 40th year of operation, we continued to strive to deliver on this fundamental objective.

I am pleased to report that the strategies we have been pursuing over recent years are translating into a stronger return on capital. Over the past 12 months our operating return on capital increased from 11.3% at 30 June 2011 to 13.2% at 30 June 2012. The Company also delivered strong earnings growth with Operating NPAT increasing 27.0% from $56.0 million in FY11 to $71.1 million in FY12.

These improvements are the result of a very clear focus on aligning ourselves to the production phase of the mining cycle and repositioning and investing in our fleet which is now clearly targeted at high utilisation mine production activities. Our investment of $165 million in growth capital during FY12 was deployed into contracts and began generating accretive returns immediately. We also divested underperforming assets which were no longer core to our fleet strategy. This has resulted in a high quality fleet aligned to the needs of our target customers.

Our commitment now is to maintain and further improve these returns into the future.

SOLID FOUNDATION FOR FUTURE SUCCESS

Mine production activity continued to increase in all of our markets over FY12 which translated into strong demand for our equipment and maintenance services. Despite a slow start in the first quarter in our Canadian and Indonesian businesses, utilisation improved over the remainder of the year to complement the strong performance of our Australian business.

Further reading page 12

Globally, we remained focused on our customer and commodity mix during the period, targeting customers which align with our strategic objectives and deliver broad commodity exposure in each region. In Canada, our increased exposure to the oil companies, indigenous contractors and coal miners is providing increased visibility on demand.

Further reading page 12

We secured a number of new customers in Indonesia based on our quality maintenance offering which has also improved our credit risk exposure. In Australia, we continued to support our blue-chip mining customers with large mining fleets while working with smaller miners to provide whole-of-mine fleets complemented by onsite maintenance services.

Further reading page 13

Our commitment now is to maintain and further improve these returns into the future.

The strategy to increase the weighting of large mining equipment in our global fleet continues to add value. Average contract durations have increased and we have been able to work with our customers on other contractual terms such as minimum monthly hours to provide more visibility of future equipment utilisation. These larger assets are utilised in the core production phase of mining operations which will provide more stable customer demand across mining cycles.

Our geographic step-out into Chile, announced in February 2012, is directly aligned to our strategy and bodes well for the future success of Emeco. This region represents a high quality organic growth opportunity for Emeco and the opportunity to further diversify into a low cost copper producing region. Emeco committed an initial $50 million investment into this market with a view to increase this further over the next 12 months subject to the success of the initial investment.

Further reading page 13

Opportunities for further growth through geographic expansion or an acquisition will continue to be considered in the year ahead, as always, with a firm focus on our business strategy and the creation of shareholder value.

KEEPING OUR PEOPLE SAFE AND ENGAGED AT WORK

Safety remains a top priority for the Board and Executive Leadership Team. During the year we introduced a behavioural based safety approach and continued to improve Emeco's safety management systems. Pleasingly, we saw a further reduction in the Lost Time Injury Frequency Rate (LTIFR) to 2.2 per million man hours for the twelve months to 30 June 2012 (30 June 2011: 2.4).

Further reading page 17

During the year, as part of Empower (our strategy for Emeco people), we progressed a number of improvement projects centred around leadership development, training, career planning and performance management. I firmly believe that investment in our people is key to Emeco's future success and we continue to see the benefit of our investment in people through the results of our employee culture surveys.

Further reading page 18

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

ED

PHOTO / EACH OF EMECO'S ONSITE MAINTENANCE TEAMS ARE FURTHER SUPPORTED BY THE PEOPLE WORKING AT OUR MAJOR WORKSHOPS STRATEGICALLY LOCATED ACROSS AUSTRALIA, INDONESIA AND CANADA.

A CHALLENGING BUT EXCITING YEAR AHEAD

Against a backdrop of ongoing global uncertainty we continue work with our customers to understand their plans and to monitor industry lead indicators to anticipate future rental demand. In light of recent broader economic trends including declining commodity prices, we expect our customers to continue to focus on managing operating costs, however we also anticipate commodity production volumes will continue to grow in the coming years. This is a vital indicator for Emeco as our business is primarily leveraged to the volume of earth moved and less directly to commodity price fluctuations. While we are working in a challenging market, we are energised by the opportunities to further improve our performance and build on our very strong customer relationships.

Our focus on optimising the fleet and developing sustainable relationships with quality customers is critical to maintaining our market leading position and the future success of Emeco. In addition, we remain committed to providing safe working environments, developing our people and being an active and positive contributor to the communities in which we operate.

Further reading page 20

In the coming year we will continue to focus on maintaining high levels of utilisation and monitoring the market for growth opportunities that are consistent with our business strategy and our commitment to delivering shareholder value.

In the coming year we will continue to focus on maintaining high levels of utilisation and monitoring the market for growth opportunities that are consistent with our business strategy and our commitment to delivering shareholder value. The Company has progressed significantly since the launch of our strategy in 2010 and I believe it is stronger than ever. I am confident that in FY13 we will continue to improve and to move the business further ahead.

KEITH GORDON
MANAGING DIRECTOR
& CHIEF EXECUTIVE OFFICER

CUSTOMER INSIGHT /

EXPANDING PRODUCTION? NO PROBLEM.

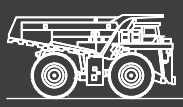
A thermal and coking coal producer in central Kalimantan, Indonesia, was seeking a large-scale maintained mining equipment fleet to support coal production of 1.2 million tonnes per annum, with the flexibility to expand to 4.8 million tonnes per annum.

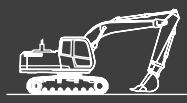
OUR SOLUTION

Emeco tailored the delivery and fleet mix of nearly 60 machines, with a written down value of more than US$35 million, to coincide with the customer's project schedule. Onsite, 80 Emeco people work to maintain and ensure the high availability and reliability of Emeco's fleet. Additional support is also provided as required by Emeco's team based in Balikpapan.

EQUIPMENT MIX

2 X 200 TONNE EXCAVATORS

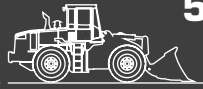

16 X 100 TONNE RIGID DUMP TRUCKS


2 X 100 TONNE EXCAVATORS

2 X 40 TONNE EXCAVATORS

12 X 40 TONNE ARTICULATED HAULERS

5 X GRADERS


5 X DOZERS

2 X WHEEL LOADERS

10 X SUPPORT EQUIPMENT

GROWTH

STEPHEN GOBBY

Significant growth in ROC and NPAT delivering value to shareholders

Cashflow generation provides flexibility across mining activity cycles

Strong balance sheet and comfortable gearing enables investment for growth and capital management

PUSHING RETURNS AND EARNINGS HIGHER

Pleasingly our continued focus on delivering value to shareholders is translating into solid results.

Operating Net Profit after Tax (NPAT) increased by 27.0% in FY12 and operating return on capital (ROC) improved to 13.2% for the twelve months to 30 June 2012, up from 11.3% in the previous year. This strong growth in earnings and returns has derived from the quality investments in large mining fleet in 1H12 and improvements in our offshore businesses.

Group operating revenue grew 12.5% to $565.2 million in FY12 as strong customer demand for equipment translated into high utilisation of the rental fleet and increased requests for Emeco's maintenance expertise resulting in improved revenue from maintenance services. The fixed cost leverage gained through these revenue increases contributed to higher operating EBIT and EBITDA margins year on year. Margins were also enhanced through direct cost efficiencies and some price increases.

CASHFLOW GENERATION A KEY ASSET

Emeco's capacity to generate strong operating cashflows remains a key feature of its financial flexibility. Operating cashflow was up 7.2% to $230.5 million in FY12 through strong EBITDA performance. Operating cash flow less net sustaining capex was $114.1 million. After paying dividends of $34.7 million to shareholders in FY12, the remaining available cashflow was reinvested to further grow our fleet which is expected to deliver further growth in operating cashflows in FY13.

The combination of strong underlying operating cashflows and the highly discretionary nature of future capital investment, provides Emeco with significant flexibility to expand or contract its balance sheet and gearing relatively quickly in light of prevailing market conditions. This cashflow flexibility is a key asset for the business.

BALANCE SHEET GOES FROM STRENGTH TO STRENGTH

We have continued to execute our funding strategy with the successful completion of a US$140 million US Private Placement debt issue in May 2012 comprising a 7 and 10 year tranche.

This transaction has diversified our funding sources and extends our average maturity to 4.1 years, providing greater certainty around our future access to capital.

While net debt levels increased in FY12 by $94.9 million to $386.4 million at 30 June 2012 due to the sizeable investment program, we maintain significant headroom of $169.9 million under the current available facilities of $629.4 million. Gearing is below our target range at 1.47x Net Debt:EBITDA, which gives the Company capacity to simultaneously undertake investment growth and capital management initiatives as appropriate.

TABLE 1 / **GROUP FINANCIAL RESULTS**

	OPERATING RESULTS			STATUTORY RESULTS		
	FY12	**FY11**	**VAR %**	**FY12**	**FY11**	**VAR %**
Revenue	**565.2**	502.5	12.5%	**565.7**	515.5	9.7%
EBITDA	**261.7**	223.3	17.2%	**260.4**	217.3	19.8%
EBIT	**126.0**	101.2	24.5%	**124.6**	92.3	35.0%
NPAT	**71.1**	56.0	27.0%	**69.7**	49.6	40.6%
ROC %	**13.2%**	11.3%	16.7%	**13.0%**	10.3%	26.6%

RECONCILIATION OF DIFFERENCES BETWEEN OPERATING AND STATUTORY RESULTS

- Significant items and discontinued operations 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.
- FY12 Operating Results (non-IFRS) excludes an expense of $1.2m, impacting EBITDA, EBIT and NPAT in the Australian business segment, which relates to unpaid employee superannuation from FY07 to FY11 arising from a payroll system error identified during an internal payroll systems review which has now been rectified. Also excluded from the FY12 Operating NPAT is the loss from discontinued operations of $0.2 million ***Further reading page 80***
- FY11 Operating Results (non-IFRS) excludes the significant impairment of one debtor in Indonesia which impacted EBIT and EBITDA by $7.9 million and NPAT $6.0 million. Also excluded from the FY11 Operating NPAT is the loss from discontinued operations of $0.4million ***Further reading page 80***

VALUE CREATION THROUGH EFFECTIVE CAPITAL MANAGEMENT

The combination of earnings growth, strong operating cash flows, and a sound balance sheet have resulted in Emeco declaring a total dividend of 6.0 cents per share, fully franked, in respect to the 2011/12 financial year. This represents an attractive dividend yield and is in line with our focus on consistent value creation for shareholders. The Board revised its stated dividend policy during the year to "distribute to shareholders between 40% to 60% of annual NPAT and to frank dividends to the fullest extent possible". The Board considered a number of factors before revising the policy and felt that it could increase the payout ratio while continuing to pursue value creating growth opportunities.

The Company's strong balance sheet position and comfortable gearing levels highlight its capacity to take advantage of value creating opportunities as they arise.

In addition to the ordinary dividend, the Company has initiated an on-market buyback program as it believes this represents a value creating opportunity for its shareholders. This capital management initiative will be pursued together with the $140 million growth capital investment already committed in FY13. The Company's strong balance sheet position and comfortable gearing levels highlight its capacity to take advantage of value creating opportunities as they arise.

Looking ahead we will remain disciplined on investing and managing the balance sheet, and continue to seek revenue enhancing and cost reduction initiatives.

This will further optimise our financial position and enable us to extract maximum value and drive shareholder returns into the future.

STEPHEN GOBBY
CHIEF FINANCIAL OFFICER

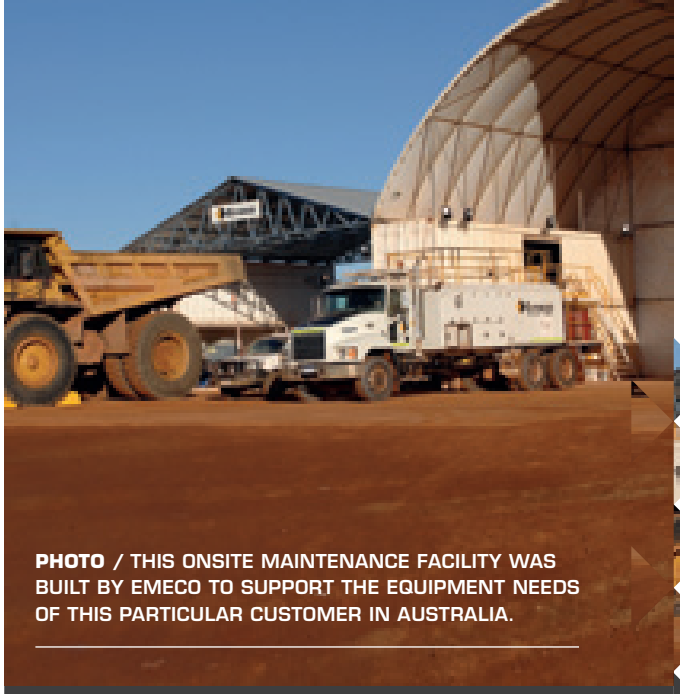


PHOTO / THIS ONSITE MAINTENANCE FACILITY WAS BUILT BY EMECO TO SUPPORT THE EQUIPMENT NEEDS OF THIS PARTICULAR CUSTOMER IN AUSTRALIA.

CUSTOMER INSIGHT /

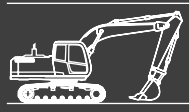
FULLY MAINTAINED, ADAPTABLE SERVICE? NO PROBLEM.

An Australian gold producer and existing customer was seeking to increase production volumes and required a reliable, flexible and maintained equipment solution with a short lead time.

OUR SOLUTION

Emeco was able to assist by adapting and matching excavator and truck fleets in line with the customer's changing needs. Initially providing the customer with 15 employees, a fully maintained fleet, two remote workshops and supporting infrastructure totalling $20 million of capital, Emeco was able to evolve its onsite service offering two years into the contract. Today, 32 Emeco people, 38 Emeco machines and over $40 million of employed capital are working onsite for the customer.

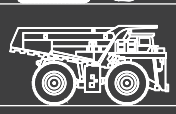
EQUIPMENT MIX



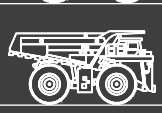
1 X 250 TONNE EXCAVATOR

3 X 100 TONNE EXCAVATORS

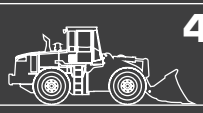
2 X 85 TONNE EXCAVATORS



4 X 150 TONNE TRUCKS



15 X 100 TONNE TRUCKS



4 X D10 DOZERS

3 X SERVICE TRUCKS

3 X WATER CARTS

2 X 14H GRADERS

1 X 16H GRADER

AUSTRALIA

MAIN MARKETS

Operating out of Western Australia, Queensland and New South Wales, the Australian rental business is well diversified across bulk commodities and metals. The business services high quality customers, primarily blue-chip miners and large contractors, leveraged to the production phase of the mining cycle.

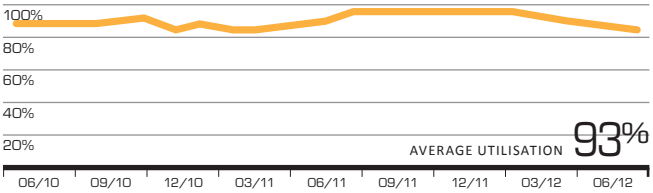
TABLE 2 / **AUSTRALIAN PERFORMANCE INDICATORS**

OPERATING RESULTS	FY12	FY11	VAR %
Revenue	**383.3**	327.2	17.1%
EBITDA	**215.7**	185.3	16.4%
EBIT	**115.6**	98.3	17.6%
Funds Employed	**508.1**	413.0	23.0%
ROFE %	**22.7%**	23.8%	-4.4%
No. Employees	**580.0**	576.0	0.7%
LTIFR	**3.1**	3.9	-19.6%

FY12 ACHIEVEMENTS

The Australian business successfully executed its growth strategy with the investment of $93 million in large mining equipment in FY12. Improved fleet utilisation and investment in new fleet delivered a 17.6% increase in EBIT on FY11. ROFE was temporarily impacted in the first half given the significant new fleet acquired, however, these assets were successfully deployed into new contracts with quality customers for mine production activity.

CHART 1 / **AUSTRALIAN FLEET UTILISATION**



FY13 FOCUS

In FY13 we will focus on targeting customers requiring fleets of equipment on long term, fully maintained contracts. In addition, we will continue to further optimise the rental fleet mix to help maintain high utilisation levels.

NOTES

- For a reconciliation of statutory to operating results refer to Table 1 on page 10 and accompanying notes
- Utilisation defined as % of fleet rented to customers (measured by written down value)
- Australia results in Table 2 represent the Australian rental segment and do not include the Australian sales and parts segment

CANADA

MAIN MARKETS

The Canadian business is strategically located in the Alberta region to service oil sands and coal projects in Western Canada.

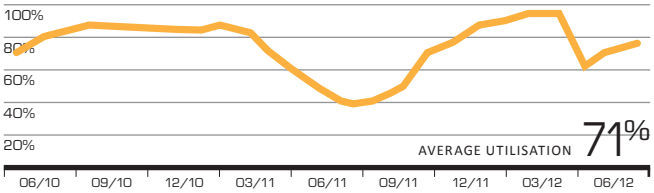
TABLE 3 / **CANADIAN PERFORMANCE INDICATORS**

OPERATING RESULTS	FY12	FY11	VAR %
Revenue	**67.2**	64.9	3.5%
EBITDA	**35.9**	32.6	10.1%
EBIT	**16.2**	14.0	15.4%
Funds Employed	**161.5**	123.9	30.4%
ROFE %	**10.0%**	11.3%	-11.5%
No. Employees	**93.0**	71.0	31.0%
LTIFR	**5.6**	–	100.0%

FY12 ACHIEVEMENTS

Emeco Canada further reconfigured its fleet in FY12 towards larger mining equipment as a result of demand from large oil sands customers. The Canadian team signed a master services agreement with a major oil sands miner, the first of its kind in the region. As a result, the business has greater visibility of customer requirements and fleet utilisation is expected to be higher over the long term.

CHART 2 / **CANADIAN FLEET UTILISATION**



FY13 FOCUS

In FY13 we will maintain our focus on further growing the direct supply of equipment rental and maintenance services to oil sands companies to improve utilisation performance. We will also continue to develop strong business relationships with indigenous contractors in the region and diversify commodity exposure by targeting customers producing alternative commodities.

NOTES

- For a reconciliation of statutory to operating results refer to Table 1 on page 10 and accompanying notes
- Utilisation defined as % of fleet rented to customers (measured by written down value)

INDONESIA

MAIN MARKETS

The Indonesian business is positioned in an optimal location to service miners and contractors in the Kalimantan region and in particular, Indonesia's low-cost thermal coal and gold mines.

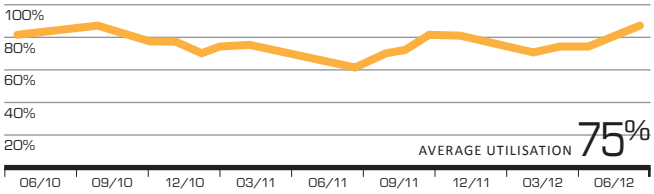
TABLE 4 / **INDONESIAN PERFORMANCE INDICATORS**

OPERATING RESULTS	FY12	FY11	VAR %
Revenue	**49.9**	44.6	12.0%
EBITDA	**25.2**	21.0	19.9%
EBIT	**10.0**	5.3	87.8%
Funds Employed	**77.5**	81.5	-4.9%
ROFE %	**12.8%**	6.5%	97.5%
No. Employees	**356.0**	293.0	21.5%
LTIFR	–	–	0.0%

FY12 ACHIEVEMENTS

Indonesia's customer mix improved with a number of new contracts signed in late FY12. This has delivered better fleet utilisation, improved contract terms and reduced credit risk profile. A large fleet of equipment came to end of contract in late FY11, however, this fleet was successfully redeployed during the first half of the year.

CHART 3 / **INDONESIAN FLEET UTILISATION**



FY13 FOCUS

In early FY13 we will finalise the deployment of the $40 million growth capex plan and maximise utilisation through additional contracts with new customers. We will also continue to build on Emeco's maintenance expertise with a focus on securing additional fully maintained rental contracts.

NOTES

- For a reconciliation of statutory to operating results refer to Table 1 on page 10 and accompanying notes
- Utilisation defined as % of fleet rented to customers (measured by written down value)

CHILE

MAIN MARKETS

Leveraged to the growing copper mining region of Antofagasta, Emeco will service large international and domestic blue-chip miners and contractors in Chile.

FY12 ACHIEVEMENTS

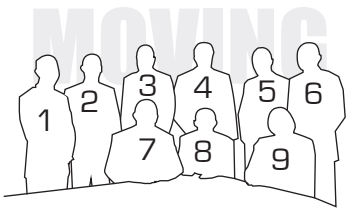
Following the decision to enter Chile in February 2012, a fleet of 10 new Caterpillar 240 tonne trucks were sourced, 5 of which will be delivered in Q1 of FY13 with the balance due to be delivered in Q3. Other critical activities carried out during the period included the recruitment of key personnel and agreeing maintenance contracts.

FY13 FOCUS

In FY13 our primary objective is to successfully execute contracts for the initial truck fleet and to further develop new customer relationships. The team will be focused on building brand awareness and relationships in the region throughout FY13.

PHOTO / EMECO IDENTIFIED CHILE AS AN ATTRACTIVE MINING REGION PROVIDING EXPOSURE TO ANOTHER GROWTH MARKET, WHILST ALSO PROVIDING EMECO WITH COMMODITY AND MARKET DIVERSIFICATION BENEFITS.

1. **MICHAEL KIRKPATRICK**
   COMPANY SECRETARY & GENERAL MANAGER, CORPORATE SERVICES
2. **STEPHEN GOBBY**
   CHIEF FINANCIAL OFFICER
3. **PETER RICHARDS**
   INDEPENDENT NON-EXECUTIVE DIRECTOR
4. **PETER JOHNSTON**
   INDEPENDENT NON-EXECUTIVE DIRECTOR
5. **KEITH GORDON**
   MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER
6. **ROBERT BISHOP**
   INDEPENDENT NON-EXECUTIVE DIRECTOR
7. **JOHN CAHILL**
   INDEPENDENT NON-EXECUTIVE DIRECTOR
8. **ALEC BRENNAN**
   CHAIRMAN & INDEPENDENT NON-EXECUTIVE DIRECTOR
9. **ERICA SMYTH**
   INDEPENDENT NON-EXECUTIVE DIRECTOR



Further reading

Board member biographies can be viewed on pages 26 and 27 in the Director's Report.

1. **CHRIS MOSSMAN**
   PRESIDENT DIRECTOR, INDONESIA
2. **IAN TESTROW**
   PRESIDENT, NORTH AMERICAS
3. **ANTHONY HALLS**
   GENERAL MANAGER, AUSTRALIAN RENTAL
4. **STEPHEN GOBBY**
   CHIEF FINANCIAL OFFICER
5. **MICHAEL KIRKPATRICK**
   GENERAL MANAGER, CORPORATE SERVICES
6. **KEITH GORDON**
   MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER
7. **MICHAEL TURNER**
   GENERAL MANAGER, GLOBAL ASSET MANAGEMENT

Further reading

Executive Leadership Team biographies can be viewed at www.emecogroup.com

OPTIMIS

- ***LTIFR improved by 9% in FY12***
- ***95% of Australian and Canadian employees participated in FY12 annual performance reviews***
- ***Significant improvement in employee satisfaction in FY12***
- ***Global community engagement and Australian Aboriginal & Torres Strait Islander engagement strategies implemented***
- ***Greenhouse gas emissions reduced by 13% on previous reporting period***

DELIVERING ON OUR VISION

Our global vision is "*to contribute to a sustainable and productive mining industry and to provide a great workplace for our people and teams*".

In FY11 we produced our inaugural Sustainability Report. We established internal processes to support annual public reporting on our sustainability performance and to ensure we deliver on the commitments made to our stakeholders from a sustainability perspective. Our stakeholders include employees, customers, shareholders, suppliers and community members.

In FY12, we worked to build on the foundations established in FY11 and to improve the ways in which we captured and reported sustainability data to ensure we more efficiently deliver on our people, community and environmental targets in future years.

MANAGING SUSTAINABILITY

To ensure sustainable business practices at Emeco, our vision, values, business and people strategies are integrated as part of our business planning and employee performance management processes. We proactively manage our financial and non-financial business risks and collaborate with our stakeholders to ensure we operate in a sustainable manner at all times. We report our sustainability performance to Emeco's Executive Leadership Team and Board of Directors regularly throughout each year.

Further reading page 17

This approach ensures that sustainability is integrated as part of our everyday operations and that we deliver on our vision and long term business goals.

TABLE 5 / **FY12 SUSTAINABILITY RISKS & OPPORTUNITIES**

SUSTAINABLE GROWTH			
	Our people	**Our community**	**Our environment**
Sustainability Risks and Opportunities	• Safety • Employee Development • Diversity	• Community Participation	• Environmental Management • Carbon and Energy

CONSISTENT REPORTING APPROACH

We have applied the Global Reporting Initiative (GRI) G3 Framework and the principles of materiality and completeness to determine the information that should be included in this FY12 Sustainability Report.

This Sustainability Report is self-declared as a C level report in accordance with the GRI G3 Guidelines. Information regarding environmental, workplace and community activities at Emeco during FY12 is presented in this Sustainability Report. We have also set targets for the year ahead and remain committed to providing current, meaningful and relevant performance information to our broader stakeholders in addition to shareholders.

Further reading Table 6

SUSTAINABILITY PERFORMANCE HIGHLIGHTS AND TARGETS

In FY12, Emeco delivered on the commitments made in FY11 and has further improved the sustainability of our global operations.

TABLE 6 / **SUSTAINABLITY PERFORMANCE AND TARGETS**

PERFORMANCE AREAS		PERFORMANCE AGAINST FY12 TARGETS	FY12 PERFORMANCE HIGHLIGHTS	FY13 PERFORMANCE TARGETS
PEOPLE	**Safety** ***Further reading page 17 & 18***	✓	• Reduced LTIFR by 9% • Trial of contractor management system commenced in Queensland	• Progress towards zero harm through a further reduction in LTIFR • Implement contractor safety management system
	Employee Development ***Further reading page 18 & 19***	✓	• Global intranet launched to improve collaboration and information sharing • 60% improvement on FY11 employee culture survey response rate • Significantly improved employee satisfaction levels • Performance management, training and development programs implemented	• Undertake third global employee culture survey • Implement consistent on-boarding process for new employees across Australian business • Establish integrated process to record employee training and to report on training key performance indicators

TABLE 6 / **SUSTAINABLITY PERFORMANCE AND TARGETS (CONTINUED)**

PERFORMANCE AREAS		PERFORMANCE AGAINST FY12 TARGETS	FY12 PERFORMANCE HIGHLIGHTS	FY13 PERFORMANCE TARGETS
PEOPLE (CONTINUED)	**Diversity** *Further reading page 19*	✓	• Developed measureable diversity objectives • Developed Diversity Action Plan • Submitted first Equal Opportunity for Women in the Workplace Agency (EOWA) Report	• Finalise development of a global gender diversity measurement framework • Implement initiatives from the Diversity Action Plan: – Review recruitment and selection processes – Review flexible work arrangements options – Deliver diversity training and build employee awareness • Undertake analysis of gender-based results from the annual employee culture survey
COMMUNITY	**Community Participation** *Further reading page 20 & 21*	✓	• Global community engagement and Australian Aboriginal & Torres Strait Islander engagement strategies approved by Board and implemented • Eight regional community engagement representatives appointed across Australian business • National partnership with Lifeline Australia	• National partnership established in each country of operation • Community engagement representatives appointed in Indonesia and Canada • Review and assess feedback from community partnership and sponsorship activities
ENVIRONMENT	**Environmental Management** *Further reading page 20 & 21*	–	• No reportable environmental incidents	• No reportable environmental incidents • Implement consistent approach to collecting waste and water-related data • Review and improve waste water management practices
	Carbon and Energy *Further reading page 21*	✓	• Reduced greenhouse gas emissions by 13% from FY10 • Improved carbon and energy data collection processes • Begun trial of GPS fuel usage tracking with a number of Australian customers	• Provide Australian customers with daily fuel usage reports by the end of 2012

PEOPLE

SAFETY

Emeco is committed to maintaining a safe and healthy working environment for its employees, contractors and customers.

We have an Occupational Health & Safety Policy which is publically disclosed on our website **www.emecogroup.com**. This Policy is supported by the Emeco Safety Health Environmental Management System (ESHEMS) and monthly reporting to the Executive Leadership Team and the Board.

INDEPENDENT SAFETY AUDIT

Between July and September 2011 an independent safety audit of Emeco's Australian operations was conducted. This audit highlighted a number of opportunities to improve the way we approach and manage safety at Emeco in Australia. Subsequently, a Safety Improvement Plan was implemented for the region in February 2012.

The current high priority focus areas of the Safety Improvement Plan for the Australian business include:

- Hazard identification and risk management
- Induction and initial training
- Contractor management
- Incident investigation and reporting
- Safety leadership (all levels of Emeco management)
- Improve safety reporting and communication
- Review and modify ESHEMS

In FY13 we will draw on the safety improvements made in the Australian business to identify opportunities to improve safety management across the Indonesian, Canadian and Chilean businesses.

SAFETY IMPROVEMENT INITIATIVES

As at 30 June 2012, the following Safety Improvement Plan initiatives have been trialled and implemented. Work will continue throughout FY13 to embed these changes across the Australian business:

- The behaviour-based Positive Attitude Safety System (PASS) has been implemented across our Australian operations. PASS aims to improve safety communication at all levels and to establish a clear focus on safety for each work shift. Operational branches, workshops and sites now conduct PASS meetings prior to the commencement of each shift and non-operational/administrative and corporate teams conduct weekly PASS meetings.
- For each tier of leadership a number of safety-related performance measures have been implemented. Both lead and lag indicators are used to assess performance and to drive future improvements. Key performance indicators with monthly targets will be introduced across our Australian operations in FY13.
- A contractor management system is currently being trialled by our Queensland operations. This system will be implemented across the Australian business by the end of 2012, ensuring that contractors to Emeco comply with necessary legislative, safety, environmental, insurance and human resource requirements.
- Monitoring, audit and review systems and procedures are currently being developed and are planned to be introduced in early 2013, in line with our ESHEMS standards.
- Safety training has been incorporated into Emeco's broader training framework to ensure that safety forms part of individual employee performance and training plans.

IMPROVED SAFETY PERFORMANCE

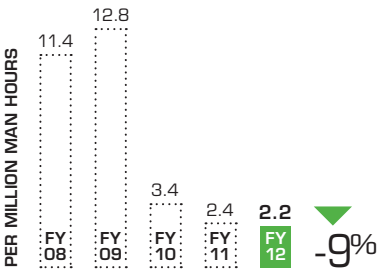
The improvement in our safety performance is reflected across a range of safety indicators.

In FY12 our Lost Time Injury Frequency Rate (LTIFR) was 2.2 showing a 9% improvement in comparison to our FY11 LTIFR of 2.4. Since 2008, Emeco's LTIFR has improved by 80.7%.

Our group-wide Medical Treatment Injury Frequency Rate (MTIFR) and Total Reportable Injury Frequency Rate (TRIFR) also decreased by 4.5% and 3.5% respectively during the FY12 period.

While we acknowledge further improvement in our safety performance is required across the business, we are progressing in the right direction and are seeing real signs of behavioural change as we work towards our ultimate goal of zero harm.

CHART 5 / **LOST TIME INJURY FREQUENCY RATE (LTIFR)**



EMPOWERED PEOPLE

In 2011, Emeco developed and launched its people strategy Empower across the Company's Australian, Indonesian and Canadian operations. Empower is aligned to our global business strategy and our vision, mission and values.

In FY12, we focused on implementing an initial set of Empower improvement projects. These were identified as crucial to creating a great place to work and to supporting Emeco people in achieving and succeeding throughout their careers.

The initial Empower improvement projects focused on:

- developing position descriptions for all global job families
- reviewing and establishing a coordinated approach to training and development
- developing and delivering a leadership development program for front-line managers and supervisors
- reviewing and establishing a coordinated approach to performance management
- launching a new global intranet to improve collaboration and information sharing across the business
- developing and implementing a consistent induction presentation and "Welcome to Emeco" video for new employees.

HAPPIER PEOPLE

We are committed to proactive and positive engagement with Emeco people, particularly in relation to receiving and acting on feedback.

In August 2011 (FY12) we conducted our second employee culture survey. A sixty per cent increase in responses was achieved in comparison to the 2010 response rate.

Results from the second employee culture survey showed that employee satisfaction had improved by 32% on the previous year. The survey clarified that values being experienced by employees at Emeco workplaces at the time the survey was conducted were closely aligned with our global values of Collaboration, Accountability, Integrity and Continuous Improvement.

The FY12 employee culture survey demonstrated that Emeco employees felt that the business is moving in the right direction from a cultural perspective. We look forward to receiving the results of the FY13 survey to once again review our progress, identify further areas for improvement and respond to employee feedback.

PERFORMANCE MANAGEMENT AND CAREER PLANNING

As part of Empower, we implemented a new Performance Management System (PMS). The PMS promotes regular and ongoing communication between individual employees and their managers.

Within the PMS, Personal Performance Plans (including objectives, behavioural assessments and training plans) were developed for 95% of employees in the Australian and Canadian businesses at the beginning of FY12. In August 2012 employees and managers across the Australian and Canadian businesses met to formally

discuss performance and achievements from FY12 and to plan goals and objectives for FY13.

In FY13, the PMS will be introduced within the Indonesian and Chilean businesses beginning at the supervisor level and above.

TRAINING AND DEVELOPMENT

The desire for additional and a more structured approach to training was raised by employees in the 2010 employee culture survey.

In FY12, as part of the PMS, competency matrices were developed for each job family and have been used to identify knowledge and skill gaps for individual employees. This information now feeds directly into each employee's annual training plan.

During FY12, we established a dedicated training and development function and appointed training co-ordinators to arrange and track all employee training across the Australian business. In FY13, our training coordinators will be facilitating the development of a formal training management system. This new training system will aim to:

- record and maintain employee training statistics
- assist the execution of training and development plans
- ensure that safety training is tracked and delivered, and
- generate training reports to enable greater analysis and to support decision-making processes.

DIVERSITY

Our operations are geographically and culturally diverse and we are focused on developing a workforce which reflects the diversity of the broader communities in which we operate. In Emeco workplaces, we are committed to equality and treating each other with respect.

As at 30 June 2012, our global workforce comprised of 763 employees.

TABLE 7 / **TOTAL NUMBER OF GLOBAL EMPLOYEES**

ROLE TYPE	FULL-TIME	PART-TIME	CASUAL	TOTAL
Administration Support	65	9	4	78
Managers	50	5	0	55
Trade & Non-Trade	428	83	0	511
Business Development & Sales	19	0	1	20
Non-Executive Directors	6	0	0	6
Senior Executive	7	0	0	7
Senior Managers	27	0	0	27
Business Support	58	1	0	59
TOTAL	**660**	**98**	**5**	**763**

At 30 June 2012, 13.5% of employees were women. Women at Emeco are primarily employed in administrative and business support roles. Currently, there are no women on Emeco's Executive Leadership Team. Emeco's Board of Directors has one woman director of the seven directors in total.

DEVELOPING OUR PEOPLE /

INDONESIAN TRAINING CENTRE & TRAINEESHIP

Attracting and recruiting skilled tradespeople in Indonesia remains a challenge for the business.

In 2011, Emeco opened a new Training Centre alongside its Kariangau workshop with the aim of increasing the Company's ability to attract new employees as trainees and to provide existing employees with career and skill development opportunities in the region.

A dedicated training team has been established to work with the trainees through the structured program. The traineeship is a four year program comprising of technical and practical modules related to mechanical and maintenance trades.

Ten trainees successfully applied and will take part in Emeco's first intake for the new four year training program.

MEASURABLE DIVERSITY OBJECTIVES

During FY11 we established a group wide Diversity Policy which is available on our website.

In FY12, in accordance with our Diversity Policy, we developed a diversity strategy containing the following measurable objectives:

- subject to identifying a candidate with appropriate industry, commercial and board experience, appoint a female to the Board of Directors in FY12
- establish an effective gender diversity measurement and reporting framework, and
- develop a Diversity Action Plan.

DIVERSITY TARGET PROGRESS

In December 2011, our first measurable objective was achieved through the appointment of Ms Erica Smyth as an Independent Non-Executive director to our Board.

In FY12 we also commenced public diversity reporting by submitting our first Equal Opportunity for Women in the Workplace Agency (EOWA) Report. We are currently making changes to our data collection process and reporting systems to enable us to analyse and report more accurately in relation to gender from July 2012.

During FY12, a Diversity Action Plan was endorsed by Emeco's Board of Directors. Our Diversity Action Plan will be implemented in FY13 and comprises the following initiatives:

- review recruitment and selection processes to identify strategies to attract female candidates and to avoid any potentially discriminatory practices
- adopt flexible working arrangements and formalise a related policy and guidelines, and

- raise awareness of diversity issues through a number of initiatives including the delivery of diversity coaching for the senior leadership team.

COMMUNITY

PROACTIVE APPROACH TO COMMUNITY ENGAGEMENT

In 2011, we recognised the need to become more proactive and targeted in our approach to community engagement. In response to this need, we developed a global Community Engagement Strategy which was endorsed by our Board of Directors in early 2012.

Our global Community Engagement Strategy is linked to our vision. It delivers a group-wide approach to community participation and seeks to establish strategic partnerships and local relationships which:

- improve standards of health, wellbeing and/or education
- support environmental remediation and/or sustainability practices, and / or
- support sustainable Indigenous business operations

Further reading page 1

Our Community Engagement Strategy also recognises that Emeco employees, our families and friends, live and work in the communities where we operate. Employee engagement is therefore a large part of our new approach to community participation and influences our selection process for supporting locally-based community causes.

By the end of FY12, Emeco had appointed eight community engagement representatives at our four major sites in Australia. The representatives were selected through a personal nomination process. In FY13 we aim to internally appoint community engagement representatives within our Indonesian, Canadian and Chilean businesses.

Emeco's community engagement representatives are responsible for:

- reviewing sponsorship or partnership requests against Emeco's global community engagement selection criteria
- engaging colleagues and generating support (e.g. fundraising, volunteering) for local community causes, and
- managing the annual community engagement budget for their region.

ENGAGING WITH INDIGENOUS COMMUNITIES

As a business operating in the global mining industry, we work on Indigenous lands and in close proximity to Indigenous communities in Australia, Indonesia, Canada and now Chile.

In late 2011, we developed an Australian-based Aboriginal and Torres Strait Islander Engagement Strategy. This strategy was endorsed by our Board of Directors in early 2012 and outlines our commitment to developing and providing culturally aware and welcoming workplaces. In FY12 at our Australian operations we have focused on:

- building employee awareness of the cultural heritage of the regions in which we operate
- improving employment pathways for Aboriginal and Torres Strait Islander people within Emeco
- establishing community partnerships and sponsorships that support Aboriginal and Torres Strait Islander causes, and
- pursuing opportunities to develop commercial partnerships with Aboriginal and Torres Strait Islander-owned businesses.

In FY13, we will look for opportunities to engage with Indigenous communities in Indonesia, Canada and Chile in a similar manner.

GLOBAL APPROACH, LOCAL BENEFITS

With the implementation of our global Community Engagement Strategy and supporting processes, we will be able to improve the ways in which we measure, report and communicate the benefits of our community investments in the future.

In FY12 we continued to provide both financial and in-kind assistance to local community causes across our operating locations and to support the efforts of Emeco employees who are actively involved in their local communities. The table below shows the community causes and groups Emeco employees elected to support in FY12.

TABLE 8 / **FY12 COMMUNITY SPONSORSHIPS BY REGION**

AUSTRALIA	**WA**	**QLD/NT**	**NSW**
	• Save the Children Fund • Youth Focus • Kalgoorlie Golden Mile Community House • Kmart Wishing Tree Appeal • Leukaemia Foundation - World's Greatest Shave	• Special Children's Christmas Parties • Clermont Country Picnic Day • Leukaemia Foundation – Everyday Hero • Cystic Fibrosis • The Mackay Foundation • Cancer Council Australia – Pink Ribbon Day	• Westpac Helicopter • RSPCA • Salvation Army Xmas Appeal • Three local netball Teams
AUSTRALIA-WIDE	• Tour de Cure • Movember		
CANADA	• Parkland Immanuel Christian School renovations • Fort McMurray Hockey Association		
INDONESIA	• Donation of 81 books and financial assistance to improve building facilities for local students and local community members at a library in Kariangau • 120 trees donated to assist in reforestation of the Sultan Hasanudin Road in Karingau • Three cattle donated to the local community for the annual 'Celebration of Community' festival • 16 cement bags and five trailers of sand to help increase security in the local community by building a new security post		

EXCITING NEW NATIONAL PARTNERSHIPS

Our global Community Engagement Strategy also guides the establishment of mutually beneficial, sustainable community partnerships.

In FY12, we established our first national partnership with Lifeline Australia (Lifeline). More information on this partnership is provided in the case study titled '*Emeco & Lifeline Partner to Save Lives Overnight*'. ***Further reading page 7***

In July 2012 (FY13), we entered into a partnership with the Clontarf Foundation (Clontarf) in Australia and look forward to developing our relationship with Clontarf over the three year initial term of this partnership. Clontarf exists to improve the education, discipline, self-esteem, life skills and employment prospects of young Aboriginal men and by doing so, equip them to participate in the community in a more meaningful way. The partnership aligns with our focus on improving 'standards of health, wellbeing and/or education'.

By 2014, we aim to have established at least one national partnership in each country of operation.

ENVIRONMENT

RESPONSIBLE ENVIRONMENTAL MANAGEMENT

Emeco's core service offering globally is the provision of maintained rental equipment solutions to mining industry companies.

We acknowledge that we are responsible for minimising the impact of our operations on the environment. Our Group Environmental Policy (available at **www.emecogroup.com**) guides and assists the Company in communicating our environmental performance expectations to our stakeholders (employees, contractors, customers and suppliers).

Environmental management and compliance is an important part of our business and the business of our customers. Onsite, we continue to work together with our customers to ensure that our equipment maintenance services operate in alignment with their onsite policies, management systems and procedures.

Across Emeco's global operations and where we operate on a customer's site, our approach to environmental management focuses largely on oil use and disposal, waste disposal and water management. While we currently track our usage and recycling efforts in relation to a number of waste products, our processes vary between sites. We plan to develop and implement a more consistent approach to collecting waste and water-related data in FY13.

Environmental incidents associated with our operations continue to be tracked and reported through the Emeco Safety Health Environmental Management System (ESHEMS) and performance is reported to the Executive Leadership Team and the Board on a monthly basis.We are pleased to report that Emeco did not experience any reportable environmental incidents or significant spills during the last financial year and we did not face any significant fines or sanctions for non-compliance with environmental laws and regulations.

REDUCED GREENHOUSE GAS EMISSIONS

Emeco has been tracking the carbon footprint of its global operations since 2008. We calculate our carbon footprint using the international best practice Greenhouse Gas Protocol and publicly report this baseline information to the Carbon Disclosure Project (CDP). Our CDP submission is made available each year at **www.cdproject.net** reporting results for the previous financial year.

CHART 5 / **GROUP 2011 EMISSIONS (SCOPE 1 & 2) BY SOURCE**

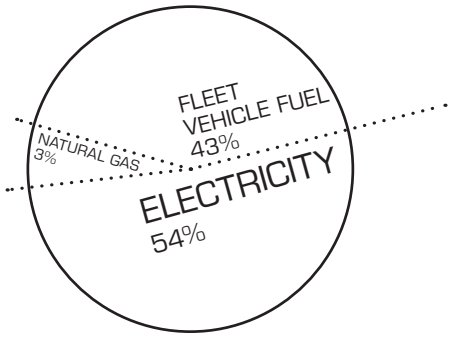
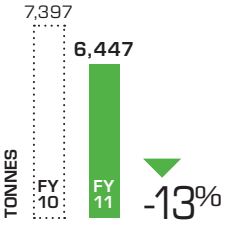


CHART 6 / **GROUP EMISSIONS 2010 & 2011**



Regular tracking and reporting confirms that the majority of our emissions are generated by our buildings, infrastructure, maintenance activities and travel.

In FY11, our total GHG emissions (scopes 1 and 2) were 6447 tCO_2e (chart 5 & 6). This represents a 13% decrease on FY10 emissions. This is due to the closure of two workshops in Canada and a reduction in the number of leased light vehicles and service vehicles we use to support our rental equipment fleet. The majority of these emissions were generated by fuel usage in light and service vehicles and electricity use at Emeco buildings.

The combustion of fuel during the use of our rental equipment will always be a 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 the equipment is in use onsite. As such, in FY12, Emeco continued to operate well under the corporate thresholds set out by the Act.

As our business grows we will continue to review emissions data in order to benchmark our performance and to identify areas where we can reduce our carbon and energy impacts. We will also continue to work with our customers on efficiency initiatives that will assist them to reduce emissions associated with operating Emeco equipment.

An example of a current initiative we are exploring for the benefit of our customers is the use of Global Positioning System (GPS) to capture the rate at which our equipment burns fuel when in use. GPS will enable Emeco to track the fuel burn rate and identify where any inefficiencies may be occurring. We aim to be providing customers of the Australian business with daily fuel usage reports by the end of 2012.

OUR BUSINESS AT WORK

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REVENUE		**2012**	2011	2010	2009	2008
Revenue from rental income	**$'000**	**440,299**	386,530	302,355	304,380	320,478
Revenue from sale of machines and parts	**$'000**	**66,689**	62,795	64,328	97,212	255,481
Revenue from maintenance services	**$'000**	**58,182**	53,170	38,276	42,131	41,898
Total	**$'000**	**565,170**	502,495	404,959	443,723	617,857
PROFIT						
EBITDA	**$'000**	**260,507**	215,379	167,685	193,594	213,453
EBIT	**$'000**	**124,820**	93,206	48,510	99,988	119,223
PBIT	**$'000**	**100,406**	70,247	25,785	77,380	95,678
NPAT from continuing operations	**$'000**	**69,972**	49,974	12,300	55,025	67,529
Profit/Loss from discontinued operations	**$'000**	**(227)**	(365)	(61,613)	(41,756)	0
Profit for the year	**$'000**	**69,745**	49,609	(49,313)	13,269	67,529
One-off significant items	**$'000**	**(1,375)**	(6,395)	(90,456)	(44,472)	0
Operating profit	**$'000**	**71,120**	**56,004**	**41,143**	**57,741**	**67,529**
Basic EPS	**CENTS**	**11.3**	8.2	2.0	2.1	10.7
BALANCE SHEET						
Total Assets	**$'000**	**1,216,116**	981,152	1,014,754	1,119,953	1,167,002
Total Liabilities	**$'000**	**575,729**	378,918	392,011	437,087	465,266
Shareholders Equity	**$'000**	**640,387**	**602,234**	**622,743**	**682,866**	**701,736**
Total Debt	**$'000**	**459,484**	297,005	305,472	341,669	365,240
CASH FLOWS						
Net cash flows from operating activities	**$'000**	**230,467**	214,931	147,462	175,435	153,591
Net cash flows from investing activities	**$'000**	**(281,817)**	(146,088)	(107,527)	(94,199)	(165,104)
Net cash flows from financing activities	**$'000**	**118,958**	(68,947)	(45,377)	(88,204)	1,831
Free Cash Flow after repayment/ (drawdown) of net debt	**$'000**	**67,608**	**(104)**	**(5,442)**	**(6,968)**	**(9,682)**
Free Cash Flow before repayment/ (drawdown) of net debt[1]	**$'000**	**(90,958)**	**(17,800)**	**24,900**	**45,500**	**(35,083)**
DIVIDENDS						
Number of ordinary shares at year end	**'000**	**631,238**	631,238	631,238	631,238	631,238
Total Dividends paid in respect to Financial Year	**$'000**	**37,874**	63,124	12,625	25,250	28,406
Ordinary Dividends per share	**CENTS**	**6.0**	**5.0**	**2.0**	**4.0**	**4.5**
Special Dividends per share	**CENTS**	**0**	**5.0**	**0**	**0**	**0**
KEY RATIO'S						
Average fleet utilisation	**%**	**86.0%**	85.0%	72.0%	74.0%	76.0%
EBIT ROC	**%**	**13.2%**	11.3%	8.3%	9.4%	11.1%
EBIT ROFE (pre goodwill)	**%**	**15.7%**	14.0%	10.5%	11.6%	14.0%
Net Debt to EBITDA	**%**	**1.47%**	1.38	1.82	1.76	1.71
Total Debt to equity	**%**	**71.8%**	49.3%	49.1%	50.0%	52.0%

Financial information as reported in the corresponding financial year and includes operations now discontinued

[1] Includes capex funded via finance lease facilities (excluded from statutory cash flow)

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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 2012 (FY12).

Current Directors

The current Directors of the Company are:

ALEC BRENNAN, AGE 65
(BSc Hons, MBA, FAICD)

Appointment: Appointed as an Independent Non-Executive Director in August 2005. Chairman since November 2006.

Board committee membership: Chairman of the Remuneration and Nomination Committee. Member of the Audit and Risk Committee.

Skills and experience: Alec was Chief Executive Officer of CSR from April 2003 until March 2007, prior to which he held a range of positions with CSR and related companies, including time as Director of Strategy leading up to the demerger of CSR and Rinker, and Director of Finance & Investments. Alec has been a public company director for more than 20 years. Alec is also a former member of the Australian Securities and Investments Commission Advisory Panel.

Current appointments:
- Director of the New South Wales Environmental Protection Authority (since 2012).
- Chairman and Director of PPI Corporation Pty Ltd (since 2007).
- Fellow of the Senate of Sydney University. Chair of the University's Finance and Human Resources committees (since 2006).

KEITH GORDON, AGE 48
(BSc (Agric) Hons, MBA, MAICD)

Appointment: Appointed as Managing Director in December 2009.

Skills and experience: Keith brings senior leadership skills and experience to Emeco, gained through an extensive career in the industrials sector. Keith joined Emeco after a decade with Wesfarmers Limited, where he held a number of senior roles and was heavily involved in major corporate transactions. Keith has a strong record of achieving value-creating growth through innovation and disciplined strategies.

Current appointments:
- Director of EDGE Employment Solutions (since 2009).

ROBERT BISHOP, AGE 67
(BSc, MSc Engineering (Birm Univ. UK), FAICD, M I E Aust)

Appointment: Appointed as an Independent Non-Executive Director in June 2009.

Board committee membership: Member of the Audit and Risk Committee.

Skills and experience: Robert has extensive international business experience having worked in the United Kingdom, South Africa and Europe with particular focus on mergers and acquisitions, new business start-ups and international business development in the manufacturing and mining sectors. Robert held the position of Chief Executive Officer of the global mining and tunnelling division of DYWIDAG Systems International GmbH from 2003 to 2008 and was a member of the Group's Supervisory Board. He is a former Managing Director of Dorsogna Limited (1994 to 1997) and Joyce Corporation Limited (1989 to 1994).

Current appointments:
- Director of Newcastle Regional Art Gallery and a member of its Investment Committee (since 2011).

JOHN CAHILL, AGE 56
(BBus, Grad Dip Bus, FCPA, GAICD)

Appointment: Appointed as an Independent Non-Executive Director in September 2008.

Board committee membership: Chairman of the Audit and Risk Committee. Member of the Remuneration and Nomination Committee.

Skills and experience: John has over 25 years' experience working in senior treasury, finance, accounting and risk management positions, predominantly in the energy utility sector. John is a past Chief Executive Officer of Alinta Infrastructure Holdings and past Chief Financial Officer of Alinta Limited.

Current appointments:
- Non-Executive Director (since 2009) and Deputy Chairman (since 2010) of Electricity Networks Corporation, Western Australia (trading as Western Power). Chair of its Finance and Risk Committee and a member of its People and Performance Committee.
- Non-Executive Director (since 2007) and President and Chairman (since 2011) of CPA Australia Limited.
- Councillor of Edith Cowan University and Chair of the University's Resources Committee (since 2011).

PETER JOHNSTON, AGE 61
(BA, FAusIMM, FAICD)

Appointment: Appointed as an Independent Non-Executive Director in September 2006.

Board committee membership: Member of the Remuneration and Nomination Committee.

Skills and experience: Peter brings to Emeco more than 30 years' experience in the Australian resources industry. Peter is currently Managing Director and Chief Executive Officer of Minara Resources Pty Ltd, a position he has held since December 2001. Prior to his current role, he held senior executive positions with WMC Resources Limited and Alcoa of Australia Limited.

Current appointments:
- Chairman of the Minerals Council of Australia (since 2010).
- Non-Executive Director Silver Lake Resources Limited (since 2007).
- Vice President of the Australian Mines and Metals Association (since 2010).
- Director of the Nickel Institute (since 1995).
- Executive Council Member of the Chamber of Minerals and Energy WA (since 1998).

ERICA SMYTH, AGE 60
(MSc, FAICD, FAIM)

Appointment: Appointed as an Independent Non-Executive Director in December 2011.

Skills and experience: Holding over 30 years' experience in the mineral and petroleum industries, Erica's career highlights include her positions as Principal Geologist for BHP Minerals, Project Manager of BHP-Utah Minerals International's Beenup Project, Manager – Gas Market Development WA for BHP Petroleum and General Manager – Corporate Affairs with Woodside Petroleum Limited. In 2010, the Chamber of Mines & Energy Western Australia awarded Erica a Lifetime Achievement Award for her contribution to the industry as part of the Women in Resources Awards 2010. In 2008 Erica was awarded a Honourary Doctor of Letters from the University of Western Australia.

Current appointments:
- Chairman of Toro Energy Limited (since 2009).
- Director of the Australian Nuclear Science and Technology Organisation (since 2009).
- Chairman of Scitech, Western Australia's interactive science centre (since 2008).
- Director Royal Flying Doctor Service Western Operations (since 2010).
- Chairman of ScreenWest, Western Australia's film screen industry funding body (since 2007).
- Chairman of Diabetes Research Foundation of Western Australia (since 2007).
- Chairman of the UWA Centenary Trust for Women (since 2008).

PETER RICHARDS, AGE 53
(B. Comm)

Appointment: Appointed as an Independent Non-Executive Director in June 2010.

Board committee membership: Member of the Audit and Risk Committee.

Skills and experience: Peter has over 30 years of international business experience with global companies including British Petroleum (including its mining arm Seltrust Holdings), Wesfarmers Limited and Dyno Nobel Limited. During his time at Dyno Nobel, he held a number of senior positions with the North American and Asia Pacific business, before being appointed as Chief Executive Officer of Dyno Nobel Limited in Australia (2005 to 2008).

Current appointments:
- Chairman of Kangaroo Resources Limited (since 2010).
- Chairman of Minbos Resources Limited (since 2010).
- Non-Executive Director of Norfolk Group Limited (since 2010).
- Non-Executive Director of Sedgman Limited (since 2010).
- Non-Executive Director of Bradken Limited (since 2009).
- Non-Executive Director of NSL Consolidated Limited (since 2009).

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' 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 Committee are outlined in the table below:

TABLE 9:

	Board Meetings		Audit & Risk Committee		Remuneration & Nomination Committee	
Director	**A**	**B**	**A**	**B**	**A**	**B**
Alec Brennan	10	10	5	5	3	3
John Cahill	10	10	5	5	3	3
Keith Gordon	10	10	5**	5**	2**	3**
Peter Johnston	10	10	4**	5**	2	3
Peter Richards	10	10	5	5	2**	3**
Robert Bishop	10	10	5	5	2**	3**
Erica Smyth	6*	6	3**	3**	2**	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
* Erica Smyth has attended all Board meetings since her appointment in December 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 ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments, including those which came into effect on 1 January 2011.

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.

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 July/August 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 FY12.

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 seven Directors, with six 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 26 to 27 of this report.

Status of the Directors

The table below sets out details of the status of each of the current Directors as to whether they are Independent and Non-Executive, their date of appointment and whether they are seeking election or re-election at the 2012 annual general meeting of the Company.

TABLE 10: STATUS OF THE DIRECTORS

Director	Date of appointment	Independent	Non-executive	Seeking election or re-election at 2012 AGM
Mr Alec Brennan	16-Aug-05	Yes	Yes	No
Mr Keith Gordon	1-Dec-09	No	No	No
Mr Peter Johnston	1-Sep-06	Yes	Yes	Yes
Mr John Cahill	15-Sep-08	Yes	Yes	No
Mr Robert Bishop	22-Jun-09	Yes	Yes	Yes
Mr Peter Richards	14-Jun-10	Yes	Yes	No
Ms Erica Smyth	15-Dec-11	Yes	Yes	Yes

Mr Brennan, Mr Johnston, Mr Cahill, Mr Bishop, Mr Richards and Ms Smyth 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 the independence of the 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 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' 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 Johnston and Mr Bishop will seek re-election at the 2012 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, and is eligible for re-election, at the next annual general meeting following his or her appointment. Having been appointed in December 2011, Ms Smyth will seek election at the 2012 annual general meeting.

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.

In addition to the above criteria, the Board aims to achieve a mix of skills and diversity in its members. 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.

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 May 2012 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 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.

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 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 to the ASX Principles and ASX Recommendations.

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.

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, and with due consideration of its social, environmental and economic impacts. Further, the Company is committed to establishing and maintaining mutually beneficial and sustainable relationships with the indigenous communities in regions where the Company operates.

The Share Trading Policy

The principal objective of the Share Trading Policy is to raise awareness 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.

Diversity Policy

The Company established a Diversity Policy in March 2011 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 is responsible for assessing and reporting to the Board on the Company's progress towards achieving its measurable diversity objectives on an annual basis.

Further details regarding the Company's progress in implementing its diversity objectives are included in the Sustainability Report at pages 19 and 20.

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 qualifications of the Audit and Risk Committee members are set out at pages 26 to 27 of this report. 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 FY12, the Committee comprised of four Independent Non-Executive Directors, all of whom have financial expertise.

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 FY12. This independence declaration forms part of the Directors' report and is provided on page 50 of this annual report.

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 Directors' Report (on page 50 of this annual report).

Details of fees paid to the Company's auditors for non-audit services are found in Note 9 of the Notes to the Financial Statements in the Financial Report.

Rotation of lead external audit partner

Mr Rob 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 Independent 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 proactive 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 is responsible 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.

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 Independent 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.

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 FY12, 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.

Details regarding membership of the Remuneration and Nomination Committee are set out under Principle 2. During FY12, the Committee met three times. Each Committee member attended all three meetings, except for Mr Johnston who attended two 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 FY12 is included in the Directors' Report on pages 36 to 48.

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 FY12, is set out on pages 10 to 13 and in the accompanying financial statements.

Dividends paid or to be paid

In relation to FY11 the Directors declared a fully franked final dividend of 3.0 cents per share which was paid on 30 September 2011.

During FY12 the Directors declared a fully franked interim dividend of 2.5 cents per share which was paid on 29 March 2012.

Since the end of FY12, the Directors have declared a fully franked final dividend of 3.5 cents per share to be paid on 28 September 2012.

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

On 20 August 2012, the Board approved an on-market buyback up to a maximum of 5% (31,561,879) of the Company's shares over the next 12 months.

There were no other 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 6 to 13. 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' 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 11: DIRECTORS' INTERESTS

	Ordinary shares	Options or rights over ordinary shares
Alec Brennan	1,581,700	–
Peter Johnston	100,000	–
John Cahill	120,000	–
Robert Bishop	300,000	–
Peter Richards	40,000	–
Erica Smyth	–	–
Keith Gordon	650,000	3,017,118*

* This total comprises 925,926 unvested performance rights and 2,091,192 unvested performance shares issued under the Company's LTI plan as approved by shareholders.

Remuneration report (audited)

REMUNERATION REPORT CONTENTS

The report covers the following matters:

1. Introduction
2. Remuneration Governance
3. CEO and Executive Remuneration
4. Non-Executive Director Remuneration
5. Details of Remuneration
6. Details of Share-Based Payments
7. Service Contracts

1. INTRODUCTION

This report details the Emeco Group's remuneration objectives, practices and outcomes for key management personnel (KMP), which includes Directors and senior executives, for the year to 30 June 2012. Any reference to "executives" in this report refers to KMPs who are not Non-Executive Directors.

1.1 Emeco's KMPs

The following persons acted as Directors of the Company during or since the end of FY12:

TABLE 12: EMECO DIRECTORS

Non-Executive Directors
Alec Brennan
Robert Bishop
John Cahill
Peter Johnston
Peter Richards
Erica Smyth (appointed as a Non-Executive Director on 15 December 2011)
Executive Director
Keith Gordon, Managing Director & Chief Executive Officer

The following persons were employed as key management personnel during FY12:

TABLE 13: EMECO EXECUTIVES

Key Management
Stephen Gobby, Chief Financial Officer
Michael Kirkpatrick, General Manager Corporate Services
Anthony Halls, General Manager Australian Rental
Michael Turner, General Manager Global Asset Management
Chris Mossman, President Director Indonesia
Ian Testrow, President Emeco Americas
David Tilbrook, Executive General Manager South East Asia (ceased employment with Emeco on 7 October 2011)
Hamish Christie-Johnston, General Manager Emeco Sales (ceased employment with Emeco on 26 November 2011)

1.2 Summary of changes to the remuneration structure

A comprehensive remuneration structure review was initiated by the Board following the 2011 Annual General Meeting (AGM) at which a significant vote against the 2011 Remuneration Report was recorded.

The review included extensive stakeholder and shareholder consultation which was completed in March 2012. As a result of this feedback a number of enhancements have been made to Emeco's remuneration practices which will affect the FY13 Long Term Incentive (LTI) grants and subsequent grants to Emeco executives. These changes are noted in various sections of this report and are summarised in the following table:

TABLE 14: SUMMARY OF CHANGES TO EXECUTIVE REMUNERATION STRUCTURE

Issue	Response
Dividends paid on unvested LTI securities	Commencing with the FY13 LTI grants: • dividends (or shadow dividends) will not be paid on unvested LTI securities; and • dividends (or shadow dividends) will accrue on unvested LTI securities and will only be paid at the time of vesting on those LTI securities that vest, provided all vesting conditions are met.
Automatic vesting of all LTI securities as a result of absolute change of control	Commencing with the FY13 LTI grants: • the proportion of vesting LTI securities will be pro-rated to reflect the performance achieved; • the proportion of vesting LTI securities will be in accordance with the relevant TSR vesting schedule for each grant; and • the Board retains the discretion to vest a greater amount.

In addition to the changes outlined above, a minor change was made to the terms of the FY10 and FY11 LTI grants made to Mr Ian Testrow and to all other Canadian resident LTI plan participants. The terms of these LTI grants have been amended to provide for the conversion of vested LTI Performance Rights into shares automatically at vesting. This is in line with the terms of the FY12 LTI grants made to Canadian resident LTI plan participants. Previously, the terms of the FY10 and FY11 grants provided that vested Performance Rights could be converted to shares at any time within two years of vesting at the grantee's election. The reason for the change relates to the operation of Canadian income tax laws. This change, which came into effect on 25 June 2012, does not result in any change in the fair value of the respective LTI grants. As at the date of alteration on 25 June 2012 the fair value of an Emeco share was as follows: FY09 tranche – 49 cents; FY10 tranche – 56 cents and FY11 tranche – 76 cents.

2. REMUNERATION GOVERNANCE

2.1 The role of the Board and the Remuneration and Nomination Committee

The Emeco Holdings Limited Board is committed to implementing executive remuneration structures which achieve a balance between:

- rewarding executives for the achievement of the Company's short and long term financial, strategic and safety goals, and
- aligning the interests and expectations of executives, shareholders and other stakeholders.

The Board engages with shareholders, management and other stakeholders as required to continuously refine and improve executive and director remuneration policies and practices. The refinements to the Company's executive remuneration structure outlined in section 1 above are the result of stakeholder feedback and the Board's engagement with stakeholders following the 2011 AGM.

The Group's Remuneration & Nomination Committee is responsible for reviewing and suggesting recommendations to the Board in relation to:

- the general remuneration strategy of the Company;
- the terms of remuneration of senior executives of the Company and the outcomes of remuneration reviews;
- employee equity plans and the allocations under those plans;
- recruitment, retention, performance measurement and termination policies and procedures for all key management personnel and senior executives reporting directly to the Managing Director;
- disclosure of remuneration in the Company's public materials including ASX filings and the Annual Report; and
- retirement payments.

The members of the Remuneration and Nomination Committee are Mr Brennan (Chair), Mr Cahill and Mr Johnston.

2.2 Services from Remuneration Consultants

The Chairman of the Remuneration and Nomination Committee engaged the Hay Group as a remuneration consultant to the Board to review the amount of fixed remuneration for the President Director of Emeco's Indonesian business. The Hay Group provided no other services in respect of KMPs during the year.

The Hay Group was paid $5,000 for its remuneration recommendations in respect of the review of the President Director. The Hay Group was paid $30,673.50 in total for all other services.

The engagement of the Hay Group was based on a documented set of protocols to be followed by the Hay Group, members of the Remuneration and Nomination Committee and KMPs for the way in which remuneration recommendations would be developed by the Hay Group and delivered to the Board.

These arrangements were implemented to ensure the Hay Group would be able to carry out its work, including information capture and the formation of recommendations, free from undue influence by KMPs about whom the recommendation may relate.

The Board undertook its own enquiries and review of the processes and procedures followed by the Hay Group during the course of its assignment and is satisfied that its remuneration recommendations were made free from undue influence. These inquiries included arrangements under which the Hay Group was required to provide the Board with a summary of the way in which it carried out its work, details of its interaction with KMPs in relation to the assignment and other services.

3. CEO AND EXECUTIVE REMUNERATION

3.1 Remuneration policy

The Group remuneration policy is substantially reflected in the objectives of the Board's Remuneration and Nomination Committee. The Committee's objectives are summarised in the following table:

TABLE 15: SUMMARY OF EMECO GROUP REMUNERATION OBJECTIVES

Objective	Practices aligned with Objective
Remunerate fairly and appropriately	Maintain balance between the interests of shareholders and the reward of executives in order to secure the long term benefits of their energy and loyalty. Benchmark remuneration structures to ensure alignment with industry trends.
Align executive interests with those of shareholders	Provide a significant proportion of remuneration as "at risk" remuneration to ensure that executive reward is directly linked to the creation of shareholder value. Ensure the human resources policies and practices are consistent and complementary to the strategic direction of the Company. Prohibit the hedging of unvested equity to ensure alignment with shareholder outcomes.
Attract, retain and develop proven performers	Provide total remuneration which is sufficient to attract and retain proven and experienced executives who are capable of: • fulfilling their respective roles with the Group; • achieving the Group's strategic objectives; and • maximising Group earnings and returns to shareholders.

The remuneration structure for Emeco's executives consists of fixed and variable components. The variable component ensures that a proportion of pay varies with Company and personal performance.

3.2 Fixed remuneration

Fixed remuneration comprises base salary, employer superannuation contributions, other allowances and non-cash benefits.

The level of remuneration is set to enable Emeco to attract and retain proven performers once they are working within the business.

Each executive's fixed remuneration is reviewed and benchmarked annually in September. Fixed remuneration for the Group's senior executives is set by reference to the fixed remuneration of comparable positions in comparable sized companies in the mining and mining services sectors. These sectors are considered to be appropriate as they are the key source of talent for the Company. The Company's policy is to set the fixed remuneration for each senior executive positions at or near the 75th percentile of the fixed remuneration for the relevant comparable position in these sectors.

An executive's responsibilities, experience, qualifications, performance and geographic location are also taken into account.

3.3 Variable remuneration

Variable remuneration is performance linked remuneration which consists of STIs and LTIs. Payment for performance assessed over one year is an STI. See section 3.3.1 for more information.

Payment for performance over a three year period is an LTI and is assessed against the relative Total Shareholder Return (TSR) of a peer group of companies. See section 3.3.2 for more information.

If maximum performance is achieved, the maximum proportions of remuneration attributable to each incentive component (as a % of fixed pay) for most executives will be as shown in the following table:

TABLE 16: COMPONENTS OF VARIABLE REMUNERATION

Executive position	Maximum STI % of fixed pay	Maximum LTI % of fixed pay	Maximum total performance based pay as % of fixed pay
Managing Director & CEO	100	75	175
Chief Financial Officer	50	50	100
General Manager Corporate Services	40	40	80
General Manager Australian Rental	40	40	80
General Manager Global Asset Management	40	40	80
President Director Indonesia	40	40	80
President Emeco Americas	40	40	80

Fixed remuneration comprises base salary, employer superannuation contributions, other allowances and non-cash benefits.

3.3.1 STI remuneration

Short term incentives are used to reward the performance of key management personnel over a full financial year. 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). The maximum achievable STI amount payable to an executive is set as a percentage of fixed remuneration (refer to table 16 above for details).

The STI KPIs are chosen to ensure that important non-financial metrics which are aligned with the long term sustainability and strategic success of the Company are included along with financial performance indicators.

STI payments are made in cash after the financial year audit is completed and following review and approval by the Remuneration and Nomination Committee and the Board.

STI key performance indicators

Financial KPIs in the FY12 STI include:

- Budgeted Net Profit after Tax (NPAT)
- Budgeted Return on Capital (ROC)

These two financial KPIs have been chosen because they directly link executives' remuneration outcomes with the quantity (NPAT) and quality (ROC) of the Company's financial performance. In the Board's view, these KPIs align the reward of executives with the interests of shareholders.

The non-financial KPIs in the FY12 STI include:

- Safety – The Board reviews the Company's safety performance in detail at each board meeting and is striving to achieve a "zero-harm" workplace at Emeco. Progress towards this aspiration is included in the STI KPIs for executives. The primary metrics include Total Recordable Injury Frequency rates and the successful implementation of a range of positive safety initiatives, including the completion of safety audits, the enhancement of contractor management systems and the establishment of behavioural based safety programs.

- Implementation of business strategy initiatives – Each year, the Board undertakes a planning process to review and update its business strategy. Progress of implementation of the current 5 year strategy by management is monitored by the Board and is included in the STI to ensure that an appropriate balance is maintained between the Company's short term and long term objectives.
- Implementation of people strategy initiatives – The Board and management are of the view that attracting and retaining the best people is critical to Emeco's ongoing success. Over the past two years, the Company has undertaken a cultural transformation and is focused on creating a workplace which is attractive to new and current employees. As set out in the Sustainability Report section (page 16) of this Annual Report, a comprehensive continuous improvement plan has been put in place to support the Company's people strategy. The inclusion of these non-financial KPIs in the STI program reflects their importance to Emeco's performance.

The following table sets out the KPIs for the FY12 STI plan and the weightings attributable to each of them:

TABLE 17: FY12 STI PLAN KPI WEIGHTINGS AND ENTITLEMENTS

	Budgeted Group Net Profit After Tax (NPAT)	Budgeted Group Return on Capital (ROC)	Safety (TRIFR) [A]	Implement Business Strategy	Implement People Strategy
Weighting:	30%	30%	15%	10%	15%
Conditions:	No STI entitlement arises in respect of the NPAT and ROC KPIs unless at least 90% of the respective budgeted outcomes are achieved. An entitlement to full payment arises in relation to each of these KPIs if 110% of the respective budget outcomes are achieved.		Entitlement to the safety KPI is foregone if: • There is a fatality or a serious, permanently disabling injury. • 50% entitlement to full payment in respect of the safety KPI arises if there is a 20% improvement in TRIFR during the full financial year, with no entitlement if the improvement is below 10%. • 50% entitlement to full payment is based on a range of positive safety initiatives being successfully implemented.	Assessment of the Managing Director's performance in relation to these KPIs is made by the Board; Executives' entitlement is assessed by the Managing Director.	

[A] Total Recordable Injury Frequency Rate (TRIFR) is calculated as the number of recordable injuries X 1,000,000 hours/the total hours worked in 12 months

3.3.2 LTI remuneration

Performance Shares and Performance Rights

Emeco has established an equity-based LTI plan that provides for a reward that varies with company performance over a three year period. The LTI plan applies to Emeco's senior managers (which includes key management personnel).

LTI remuneration aligns the interests of Emeco's senior managers with the long term interests of its shareholders by providing Emeco's senior managers with an ongoing incentive to deliver the long term objectives of the Emeco Group.

Payment is in the form of Performance Shares or Performance Rights (LTI securities). 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.

Changes From Prior Period

Grants under the FY13 plan and all future grants to executives will include the following changes arising from the remuneration structure review:

- Dividends in respect of Performance Shares and shadow dividends in respect of Performance Rights will accumulate during the LTI vesting period and will be paid at the end of the vesting period if and only if there is a vesting and only in respect of vested LTI securities.
- If there is an absolute change in control of the Company, LTI securities on issue at the time of the change in control will automatically vest only if TSR performance hurdles have been met as at the date of the change of control, with the proportion of vesting LTI securities to be in accordance with the relevant TSR vesting schedule for each grant, provided that the Board will retain a discretion to vest a greater amount.

In addition to the changes outlined above, a minor change was made to the terms of the FY10 and FY11 LTI grants made to Mr Ian Testrow and to all other Canadian resident LTI plan participants. The terms of these LTI grants have been amended to provide for the conversion of vested LTI Performance Rights into shares automatically at vesting. This is in line with the terms of the FY12 LTI grants made to Canadian resident LTI plan participants. Previously, the terms of the FY10 and FY11 grants provided that vested Performance Rights could be converted to shares at any time within two years of vesting at the grantee's election. The reason for the change relates to the operation of Canadian income tax laws. This change, which came into effect on 25 June 2012, does not result in any change in the fair value of the respective LTI grants. As at the date of alteration on 25 June 2012 the fair value of an Emeco share was as follows: FY09 tranche – 49 cents; FY10 tranche – 56 cents and FY11 tranche – 76 cents.

LTI plan performance condition – relative Total Shareholder Return (TSR)

The performance condition for the vesting of Performance Shares and the exercise of Performance Rights under the FY12 LTI plan (and the FY11 and FY10 plans) is a performance hurdle based on relative total shareholder return (TSR).

Emeco's TSR at the end of a 3 year vesting period will be measured against a peer group, which at the time of the FY12 grant, comprised a total of 95 companies (this number may change as a result of takeovers, mergers etc). TSR for Emeco and each company in the Peer Group is calculated by reference to share price movement, dividends and capital returns.

Within the peer group of 95 companies is a group of 18 companies that are considered direct peers to Emeco. The remaining companies are in the S&P/ASX Small Industrials index (excluding banks, insurance companies, property trusts/companies and investment property trusts/companies and other stapled securities).

Vesting conditions for LTI securities

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:

TABLE 18: TSR VESTING SCHEDULE

TSR ranking	Percent of LTI securities subject to TSR condition that qualify for vesting
50th percentile or below	0 percent
Above 50th percentile and below 75th percentile	50 percent of the LTI securities vest plus an additional 2 percent for every one percent increase in TSR ranking between the 50th percentile and 75th percentile
75th percentile or above	100 percent

Performance Shares that have not vested after the end of the performance period will be transferred to a nominee of the Company and held on trust for subsequent re-allocation. Performance Rights which do not become exercisable will lapse.

Performance Shares which have vested will be transferred into the name of the participant. For executives based outside Australia, Performance Rights will convert into shares and will be transferred into the name of the participant.

Vesting on involuntary termination

If an executive's employment is terminated due to death, total and permanent disability, retrenchment or compulsory retirement then the TSR of the executive's outstanding unvested LTI securities will be tested at the date of termination. If the performance condition has been met then the LTI securities will vest based on the TSR performance. All unvested LTI securities lapse if an executive resigns or is terminated for cause.

Australian based executives

In FY12, 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 executive's LTI percentage entitlement and the fair value of the share grant. Performance Shares were granted at no cost to the recipient and at a nil exercise price; they vest if the performance condition described above is met.

Executives based outside Australia

Emeco participants in the FY12 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.

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.

3.4 Relationship between Remuneration and Company Performance

Emeco's remuneration objectives 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 senior executives' remuneration is "at risk" in the form of Short Term Incentive (STI) and LTI components. STI entitlements are linked to the achievement of financial measures of the Company's profitability and return on capital, and to the achievement of non-financial measures of operational and strategic outcomes. LTI entitlements are linked to performance relative to a comparator group of similar companies.

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.

Details of the KPIs for the FY12 STI and LTI plans are set out in the following table:

TABLE 19: FINANCIAL AND NON-FINANCIAL LTI AND STI MEASURES

	LTI	STI
Financial	Relative total shareholder return (TSR) performance	Budgeted Net Profit after Tax (NPAT) Budgeted Return on Capital (ROC)
Non-financial	–	Safety performance Implementation of business strategy initiatives Implementation of people strategy initiatives

Further details regarding Emeco's executive remuneration structure are set out in sections 3.2 and 3.3 of this Remuneration Report.

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 all executives received a STI payment in line with the improved performance of the Group and the successful execution of its strategy. In FY12, STI payments to senior executives decreased from the amounts paid in FY11 principally because the FY12 financial KPI targets were not met to the same extent as they were in FY11. Details of these KPIs are set out below in section 5.2.

Details of the Group's performance and benefits for shareholder wealth are set out in the following table:

TABLE 20: CONSEQUENCES OF PERFORMANCE ON SHAREHOLDER WEALTH

	FY12	FY11	FY10	FY09	FY08
Profit/Loss from Continuing Operations ($'m)	70.0	50.0	12.3	55.0	67.5
Profit/Loss from Discontinued Operations ($'m)	(0.2)	(0.4)	(61.6)	(41.8)	–
Statutory Profit/Loss ($'m)	69.7	49.6	(49.3)	13.3	67.5
Total Dividends declared ($'m)	37.9	63.1	12.6	25.3	28.4
Return on Capital Employed (%)	13.0%	10.3%	(1.1)%	6.0%	11.0%
Share Price at 30 June ($)	0.87	1.13	0.58	0.41	1.07

The primary focus of the Company is to increase its Return on Capital (ROC) to levels acceptable to shareholders. The increase in the Company's statutory ROC in FY12 from 10.3% to 13.0% is a significant increase and marks the second successive year of ROC improvements. Statutory Profit/Loss also increased during the year to its highest level in the previous five reporting periods. The Company improved statutory Profit/Loss by 41% in FY12 to $69.7 million.

As noted above, the STI entitlements of Emeco's senior executives in 2008, 2009 and 2010 were significantly reduced in line with the performance of the Company. However, in FY11 and FY12 better Company performance has resulted in better STI entitlements for Emeco's senior executives.

The Company's share price declined significantly in FY09 and FY10 before increasing nearly 100% from 58 cents at close of trading on 1 July 2010 to $1.13 at close of trading on 30 June 2011. During FY12 the Company's share price peaked at $1.18 and ended the financial year at 87 cents. A factor which was a primary cause of the volatility in the Company's share price during FY12 was the uncertainty in the global macroeconomic environment.

During FY12 the Company amended its dividend policy to pay shareholders between 40% and 60% of the Company's profit, franked to the fullest extent possible. The Company has declared a dividend of three and a half cents per share for the half year ended 30 June 2012, taking the total dividend in respect of FY12 to six cents per share. The previous policy was to pay shareholders between 35% and 45% of the Company's profit. There have been two exceptions in the last 5 years where this has not been the case. Firstly, no dividend was paid for the half year ended 31 December 2009 in the wake of the global financial crisis and second, the Company paid a special dividend of five cents per share for the half year ended 31 December 2010.

Furthermore, on 20 August 2012, the Board approved a share buy-back program up to a maximum of 5% of the Company's share capital as part of its capital management strategy.

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 ROC. 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.

4. NON-EXECUTIVE DIRECTOR REMUNERATION

There has been no change to the basis of setting Non-Executive Director fees since the prior reporting period.

Fees for Non-Executive Directors are fixed and are not linked to the financial performance of the Company. The Board believes this is necessary for Non-Executive Directors to maintain their independence.

An annual cap of $1,200,000 is currently prescribed in the Company's constitution as the total aggregate remuneration available to Non-Executive Directors.

The allocation of fees to Non-Executive Directors within this cap has been determined after consideration of a number of factors including the time commitment of Directors, the size and scale of the Company's operations, the skill sets of Board members, the quantum of fees paid to Non-Executive Directors of comparable companies and participation in Board Committee work.

The Chairman is entitled to an annual fee of $197,798, inclusive of superannuation contributions. The other Non-Executive Directors receive an annual base fee of $113,027, inclusive of superannuation contributions. An additional annual fee of $8,477, inclusive of superannuation, is paid to any Director who is a member of a Board Committee. This fee is increased to $11,303 for a Director who chairs a Committee.

5. DETAILS OF REMUNERATION

5.1 Remuneration received in relation to FY12

Details of the elements comprising the remuneration of the Group's Directors and key management personnel in FY12 are set out in table 21.

The following table does not include the following components of remuneration because they are not provided to key executives during FY12: 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 21: DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION FY12 (COMPANY AND CONSOLIDATED)

	Short-term employee benefits			Post-employment benefits			Share based payments				
	Salary and Fees	STI cash bonuses [A]	Non-monetary	Super-annuation benefits	Other long term benefits	Termi-nation benefits	LTIP	MISP	Total	% of remu-neration perform-ance related	Value of options as a % of total remun-eration
	$	$	$	$	$	$	$	$	$	%	%
Non-Executive Directors											
Alec Brennan	197,545	–	–	17,779	–	–	–	–	215,324	–	–
Robert Bishop	111,089	–	–	9,157	–	–	–	–	120,246	–	–
John Cahill	120,580	–	–	10,430	–	–	–	–	131,010	–	–
Peter Johnston	110,318	–	–	9,928	–	–	–	–	120,246	–	–
Peter Richards	110,318	–	–	9,928	–	–	–	–	120,246	–	–
Erica Smyth [B]	54,639	–	–	4,917	–	–	–	–	59,556	–	–
Executive Director											
Keith Gordon	884,673	531,140	–	25,000	–	–	563,540	–	2,004,353	54.6	–
TOTAL ALL DIRECTORS	1,589,162	531,140	–	87,139	–	–	563,540	–	2,770,981	39.5	–
Executives											
Stephen Gobby	458,739	143,641	–	25,000	–	–	217,934	–	845,314	42.8	–
Michael Kirkpatrick	330,487	85,573	–	29,744	–	–	130,896	–	576,700	37.5	–
Anthony Halls	360,560	89,885	–	24,372	–	–	124,556	–	599,373	35.8	–
Michael Turner	428,129	107,437	–	24,294	–	–	167,719	–	727,579	37.8	–
Chris Mossman [C]	349,377	76,084	119,204	–	–	–	72,187	–	616,852	24.0	–
Ian Testrow [D]	332,278	97,386	120,852	–	–	–	147,901	–	698,417	35.1	–
David Tilbrook [E]	131,538	–	–	11,838	–	–	75,285	–	218,661	34.4	–
Hamish Christie-Johnston [F]	139,771	–	–	12,579	–	26,182	66,322	(31,669)	213,185	16.3	(14.9)
TOTAL ALL EXECUTIVES	2,530,879	600,006	240,056	127,827	–	26,182	1,002,800	(31,669)	4,496,081	34.9	(0.7)
TOTAL	4,120,041	1,131,146	240,056	214,966	–	26,182	1,566,340	(31,669)	7,267,062	36.7	(0.4)

Notes:
[A] The amount awarded to each executive under the FY12 STI plan was finally determined on 20 August 2012 after completion of performance reviews (Refer to table 23).
[B] Ms Smyth was appointed as a Non-Executive Director on 15 December 2011.
[C] Mr Mossman's remuneration has been converted to Australian dollars on the basis of an AUD/USD exchange rate of 1.0319.
[D] Mr Testrow's remuneration has been converted to Australian dollars on the basis of an AUD/CAD exchange rate of 1.0342.
[E] Mr Tilbrook ceased employment with Emeco on 7 October 2011.
[F] Mr Christie-Johnston ceased employment with Emeco on 26 November 2011.

Comparative information relating to remuneration of the Group's key executives for the prior financial year is below.

TABLE 22: DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION FY11 (COMPANY AND CONSOLIDATED)

	Short-term employee benefits			Post-employment benefits			Share based payments				
	Salary and Fees	STI cash bonuses [A]	Non-monetary	Super-annuation benefits	Other long term benefits	Termi-nation benefits	LTIP	MISP	Total	% of remu-neration perfor-mance related	Value of options as a % of total remun-eration
	$	$	$	$	$	$	$	$	$	%	%
Non-Executive Directors											
Alec Brennan	191,254	–	–	17,213	–	–	–	–	208,467	–	–
Robert Bishop	112,355	–	–	4,450	–	–	–	–	116,805	–	–
John Cahill [B]	122,852	–	–	11,057	–	–	–	–	133,909	–	–
Peter Johnston	106,638	–	–	9,597	–	–	–	–	116,235	–	–
Peter Richards	106,190	–	–	9,557	–	–	–	–	115,747	–	–
Executive Director											
Keith Gordon	860,505	771,847	665	25,000	–	–	299,483(1)	–	1,957,500	54.7	–
TOTAL ALL DIRECTORS	1,499,794	771,847	665	76,874	–	–	299,483	–	2,648,663	40.4	–
Executives											
Stephen Gobby	440,095	221,165	2,716	22,015	–	–	206,191	–	892,182	47.9	–
Michael Kirkpatrick	321,059	132,383	744	25,418	–	–	124,462	299	604,365	42.5	0.0
Anthony Halls	351,998	124,593	594	23,144	–	–	84,899	–	585,228	35.8	–
Michael Turner	358,863	152,475	14,632	22,922	–	–	163,688	–	712,580	44.4	–
Chris Mossman [C]	56,108	8,680	30,442	–	–	–	16,394	–	111,624	22.5	–
Ian Testrow [D]	337,348	161,737	68,315	–	–	–	152,548	8,160	728,108	44.3	1.1
David Tilbrook	473,363	165,234	–	26,187	–	–	188,284	–	853,068	41.4	–
Hamish Christie-Johnston	282,616	111,272	15,208	27,252	–	–	130,602	11,524	578,474	43.8	2.0
Guido Gadomsky [E]	219,972(2)	12,936	402	20,962	–	212,500	–	–	466,772	2.8	–
TOTAL ALL EXECUTIVES	2,841,422	1,090,475	133,053	167,900	–	212,500	1,067,068	19,983	5,532,401	39.4	0.4
TOTAL	4,341,216	1,862,322	133,718	244,774	–	212,500	1,366,551	19,983	8,181,064	39.7	0.2

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] During FY11 Mr Cahill was reimbursed $8,788 in respect of under payments relating to FY10. This adjustment is included in his FY11 remuneration.
[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 personnel 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.
[E] Mr Gadomsky ceased employment with Emeco on 25 March 2011.
(1) 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.
(2) 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.

5.2 FY12 STI grants

The terms of the FY12 STI Plan are discussed at pages 39 to 40.

Details of the vesting profile of the STI cash grants awarded to key executives in respect of FY12 are set out below:

TABLE 23: KEY EXECUTIVE STI VESTING INFORMATION IN RESPECT OF FY12

	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]
	$	$	$	%	%
Keith Gordon	–	919,360	531,140	57.8	42.2
Stephen Gobby	–	244,400	143,641	58.8	41.2
Michael Kirkpatrick	–	145,600	85,573	58.8	41.2
Anthony Halls	–	155,584	89,885	57.8	42.2
Michael Turner	–	182,800	107,437	58.8	41.2
Chris Mossman [A]	–	139,751	76,084	54.4	45.6
Ian Testrow [B]	–	144,500	97,386	67.4	32.6
David Tilbrook [C]	–	–	–	–	100.0
Hamish Christie-Johnston [D]	–	–	–	–	100.0

Notes:
[1] Amounts included in remuneration for FY12 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 FY12. All STI grants are made in cash. All grants were approved on 20 August 2012.
[2] Amounts forfeited are due to the KPIs not being met in relation to FY12.
[A] Mr Mossman's remuneration has been converted to Australian dollars on the basis of an AUD/USD exchange rate of 1.0319.
[B] Mr Testrow's remuneration has been converted to Australian dollars on the basis of an AUD/CAD exchange rate of 1.0342.
[C] Mr Tilbrook ceased employment with Emeco on 7 October 2011. He was not eligible for an STI grant in FY12.
[D] Mr Christie-Johnston ceased employment with Emeco on 26 November 2011. He was not eligible for an STI grant in FY12.

6. DETAILS OF SHARE-BASED PAYMENTS

6.1 Equity instruments

6.1.1 LTI grants

The terms of the LTI Plan are discussed at pages 40 to 41.

Grants of Performance Shares made to key management personnel under the Company's LTI Plan in FY11 and FY12 are set out in the following table.

TABLE 24: LTI PERFORMANCE SHARE AND PERFORMANCE RIGHT GRANTS TO KEY EXECUTIVES

	Grant Date	Equity instrument	Number granted	Maximum value $	% vested in year	% forfeited in year	Vesting Date (1)
Keith Gordon	19-Apr-10	Rights	925,926	456,131	–	–	Sep-12
	19-Nov-10	Shares	1,183,929	663,000	–	–	Sep-13
	18-Nov-11	Shares	907,263	689,520	–	–	Sep-14
Stephen Gobby	16-Dec-08	Shares	731,982	202,481	100.0	–	Sep-11
	19-Apr-10	Rights	300,926	148,243	–	–	Sep-12
	19-Nov-10	Shares	419,643	235,000	–	–	Sep-13
	18-Nov-11	Shares	321,579	244,400	–	–	Sep-14
Michael Kirkpatrick	16-Dec-08	Shares	450,450	124,603	100.0	–	Sep-11
	19-Apr-10	Rights	185,185	91,226	–	–	Sep-12
	19-Nov-10	Shares	250,000	140,000	–	–	Sep-13
	18-Nov-11	Shares	191,579	145,600	–	–	Sep-14
Anthony Halls	16-Dec-08	Shares	162,162	44,857	100.0	–	Sep-11
	19-Apr-10	Rights	166,667	82,104	–	–	Sep-12
	19-Nov-10	Shares	267,143	149,600	–	–	Sep-13
	18-Nov-11	Shares	204,716	155,584	–	–	Sep-14
Michael Turner	16-Dec-08	Shares	585,586	161,985	100.0	–	Sep-11
	19-Apr-10	Rights	240,741	118,594	–	–	Sep-12
	19-Nov-10	Shares	314,286	176,000	–	–	Sep-13
	18-Nov-11	Shares	240,526	182,800	–	–	Sep-14
Chris Mossman	16-Dec-08	Shares	171,667	47,486	100.0	–	Sep-11
	19-Apr-10	Rights	70,574	34,766	–	–	Sep-12
	19-Nov-10	Rights	107,012	59,927	–	–	Sep-13
	23-Dec-11	Rights	192,093	145,991	–	–	Sep-14
Ian Testrow	16-Dec-08	Shares	540,541	149,524	100.0	–	Sep-11
	19-Apr-10	Rights	239,077	117,775	–	–	Sep-12
	19-Nov-10	Rights	269,393	150,860	–	–	Sep-13
	18-Nov-11	Rights	189,000	143,640	–	–	Sep-14
David Tilbrook [A]	16-Dec-08	Shares	684,685	189,397	100.0	–	Sep-11
	19-Apr-10	Rights	281,481	138,664	67.3	32.7	07-Oct-11
	19-Nov-10	Shares	355,029	198,816	36.0	64.0	07-Oct-11
Hamish Christie-Johnston [B]	16-Dec-08	Shares	495,495	137,064	100.0	–	Sep-11
	19-Apr-10	Rights	203,704	100,349	71.8	28.2	26-Nov-11
	19-Nov-10	Shares	265,000	148,400	40.5	59.5	26-Nov-11

Notes:

The fair value of the LTI securities 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 (table 21) is the portion of the fair value of the performance shares recognised in this reporting period over the vesting period.

The fair value of each share or right at the grant date is as follows 16-Dec-08 $0.28; 19-Apr-10 $0.49; 19-Nov-10 $0.56 and 23-Dec-11 $0.76.

(1) For LTI Securities granted in FY10 the earliest vesting date is 30 September 2012. For LTI Securities granted in FY11 and FY12 the earliest vesting date is the tenth trading day after the announcement of the Company's annual results in FY14 and FY15 respectively.

The minimum value of each LTI tranche is zero.

[A] Mr Tilbrook ceased employment with Emeco on 7 October 2011. The LTI Securities which vested in FY12 for Mr Tilbrook include a portion of LTI Securities comprising 317,247 LTI Securities issued under the FY10 and FY11 LTI plans which were subject to TSR testing as at the date of the termination of his employment and which, in accordance with the terms of grant, vested on a pro rata basis as a result of having satisfied the TSR performance condition.

[B] Mr Christie-Johnston ceased employment with Emeco on 26 November 2011. The LTI Securities which vested in FY12 for Mr Christie-Johnston include a portion of LTI Securities comprising 253,627 LTI Securities issued under the FY10 and FY11 LTI plans which were subject to TSR testing as at the date of the termination of his employment and which, in accordance with the terms of grant, vested on a pro rata basis as a result of having satisfied the TSR performance condition.

6.1.2 Management Incentive Share Plan (MISP)

Emeco established a Management Incentive Share Plan (MISP) in 2005. The MISP was closed in 2008 at which time the last allocation of shares was made to a KMP. Details on the MISP are set out below.

MISP Conditions

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 5th 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.

2012 MISP entitlements

The last allocation of shares to key management personnel under the MISP was made to Mr Christie-Johnston in March 2008.

During FY12, the Company recognised share based payments to Messrs Christie-Johnston and Testrow (MISP Participants) under the Company's Management Incentive Share Plan (MISP) as set out below:

TABLE 25: MISP GRANTS TO KEY EXECUTIVES

	Hamish Christie-Johnston [A]	Ian Testrow
Number of shares issued under the MISP	500,000	300,000
Issue price of the MISP shares	$0.74	$1.16
Date of grant	14-Mar-08	12-Jun-06
Amount of Company loan in respect of MISP shares outstanding at reporting date	–	$267,000
Highest amount of indebtedness during the period	$292,500	$310,500
Fair value recognised as remuneration during the year	($31,669)	–

[A] Mr Hamish Christie-Johnston terminated his employment with Emeco on 26 November 2011.

6.1.3 Emeco Employee Share Ownership Plan

Emeco's Employee Share Ownership Plan (**ESOP**) is an elective plan which is open to all Australian employees. During FY12 several senior Emeco executives participated in the ESOP including KMPs. Details of the shares purchased on their behalf and of the matching shares allocated to them under the ESOP are set out below:

TABLE 26: ESOP SHARES PURCHASED AND ACQUIRED BY KEY EXECUTIVES

	Shares Purchased	Matching Shares Granted
Stephen Gobby	4,987	992
Anthony Halls	4,987	992
Michael Turner	4,987	992
Hamish Christie-Johnston [A]	2,076	–

[A] Mr Hamish Christie-Johnston terminated his employment with Emeco on 26 November 2011.

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.

7. SERVICE CONTRACTS

Chief Executive Officer – Mr 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 months' base salary in lieu of notice.

Chief Financial Officer – Mr 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 on a pro-rata basis.

Other Executives

Except as outlined above, each of the key executives named in table 13 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.

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 Directors' Report.

Details of fees paid to the Company's auditors for non-audit services are found in Note 9 of the Notes to the Financial Statements in 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, 20th day of August 2012.

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 2012 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

R Gambitta
Partner

Perth

20 August 2012

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Continuing operations			
Revenue from rental income		440,299	386,530
Revenue from the sale of machines and parts		66,689	62,795
Revenue from maintenance services		58,182	53,170
		565,170	502,495
Changes in machinery and parts inventory		(68,887)	(69,432)
Repairs and maintenance		(155,101)	(129,240)
Employee expenses		(47,937)	(40,769)
Hired in equipment and labour		(3,231)	(8,916)
Gross profit		290,014	254,138
Other income	7	3,900	7,211
Other expense	8	(31,920)	(42,198)
Impairment of tangible assets	8	(1,487)	(3,772)
EBITDA (1)		260,507	215,379
Depreciation expense	8	(135,470)	(121,915)
Amortisation expense	8	(217)	(258)
EBIT (2)		124,820	93,206
Financial income	8	361	281
Financial costs	8	(24,775)	(23,240)
Profit before income tax expense		100,406	70,247
Tax expense	10	(30,434)	(20,273)
Profit from continuing operations		69,972	49,974
Discontinued operations			
Loss from discontinued operations (net of tax) before equity transfers	14	(71)	(434)
FCTR of discontinued operations disposed (3)	14	(156)	420
Loss on sale of discontinued operations (net of tax)	14	–	(351)
Loss from discontinued operations		(227)	(365)
Profit for the year		69,745	49,609
Other comprehensive income (after tax)			
Foreign currency translation differences for foreign operations		3,252	(16,978)
FCTR of discontinued operations disposed (3)		156	420
Effective portion of changes in fair value of cash flow hedges		(54)	3,259
Total other comprehensive income/(loss) for the year		3,354	(13,299)
Total comprehensive income for the year		73,099	36,310
Attributed to:			
Equity holders of the Company		73,099	36,310

	Note	2012 Cents	2011 Cents
Earnings per share:			
Basic earnings/(loss) per share	36	11.4	5.1
Diluted earnings/(loss) per share	36	11.2	7.9
Earnings per share-continuing operations			
Basic earnings per share	36	11.5	8.2
Diluted earnings per share		11.2	7.9

(1) EBITDA – Earnings before interest expense, tax, depreciation and amortisation.
(2) EBIT – Earnings before interest expense and tax.
(3) 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 55 to 105.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2012

	Note	2012 $'000	2011 $'000
Current Assets			
Cash assets	17	73,091	5,502
Trade and other receivables	18	99,009	82,966
Derivatives	19	776	285
Inventories	20	35,114	48,569
Prepayments		3,180	2,313
Current tax asset	11	563	427
Assets held for sale	15	405	8,728
Total current assets		212,138	148,790
Non-current assets			
Trade and other receivables	18	1,057	581
Derivatives	19	3,643	–
Intangible assets and goodwill	21	173,948	173,248
Property, plant and equipment	22	825,220	658,533
Deferred tax assets	12	110	–
Total non-current assets		1,003,978	832,362
Total assets		1,216,116	981,152
Current Liabilities			
Trade and other payables	23	64,296	42,694
Derivatives	19	2,239	3,543
Interest bearing liabilities	24	3,339	3,308
Current tax liabilities	11	14,100	6,790
Provisions	26	3,966	5,117
Total current liabilities		87,940	61,452
Non-current Liabilities			
Derivatives	19	3,369	2,160
Interest bearing liabilities	24	452,270	290,495
Deferred tax liabilities	12	31,106	23,943
Provisions	26	1,044	868
Total non-current liabilities		487,789	317,466
Total liabilities		575,729	378,918
Net assets		640,387	602,234
Equity			
Share capital	13	610,424	610,304
Reserves		(29,456)	(32,462)
Retained earnings		59,419	24,392
Total equity attributable to equity holders of the Company		640,387	602,234

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 55 to 105.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

	Share capital $'000	Share based payment reserve $'000	Hedging reserve $'000	Foreign currency translation reserve $'000	Reserve for own shares $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2010	609,578	2,728	(7,246)	(7,664)	(6,247)	31,594	622,743
Total comprehensive income for the year							
Profit or (loss)	–	–	–	–	–	49,609	49,609
Other comprehensive income							
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
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
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[1]	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

	Share capital $'000	Share based payment reserve $'000	Hedging reserve $'000	Foreign currency translation reserve $'000	Reserve for own shares $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2011	610,304	6,462	(3,987)	(24,222)	(10,715)	24,392	602,234
Total comprehensive income for the year							
Profit or (loss)	–	–	–	–	–	69,745	69,745
Other comprehensive income							
Foreign currency translation differences	–	–	–	3,252	–	–	3,252
Exchange differences of disposed foreign operations	–	–	–	156	–	–	156
Effective portion of changes in fair value of cash flow hedge, net of tax	–	–	(54)	–	–	–	(54)
Total comprehensive income/ (loss) for the year	–	–	(54)	3,408	–	69,745	73,099
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Own shares acquired by employee share plan trust	–	–	–	–	(3,042)	–	(3,042)
Dividends to equity holders	98	–	–	–	–	(34,718)	(34,620)
Share-based payment transactions	22[1]	2,693	–	–	–	–	2,715
Total contributions by and distributions to owners	120	2,693	–	–	(3,042)	(34,718)	(34,946)
Balance at 30 June 2012	610,424	9,155	(4,041)	(20,814)	(13,757)	59,419	640,387

(1) 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 55 to 105.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Cash receipts from customers		544,227	517,811
Cash paid to suppliers and employees		(277,481)	(270,328)
Cash generated from operations		266,746	247,483
Interest received		361	566
Interest paid		(22,857)	(19,075)
Taxes paid		(13,783)	(14,043)
Net cash from operating activities	31(ii)	230,467	214,931
Cash flows from investing activities			
Proceeds on disposal of non-current assets		35,191	39,439
Payment for property, plant and equipment		(317,008)	(199,950)
Disposal of discontinued operations net of cash disposed	14	–	14,423
Net cash used in investing activities		(281,817)	(146,088)
Cash flows from financing activities			
Proceeds from borrowings		181,302	134,151
Repayment of borrowings		(162,195)	(130,131)
Proceeds from issue of notes (USPP US$140m)	24	144,022	–
Purchase of own shares		(3,042)	(4,468)
Payment for debt establishment costs		(1,849)	(4,054)
Payment of finance lease liabilities		(4,562)	(7,578)
Dividends paid		(34,718)	(56,867)
Net cash from/(used in) financing activities		118,958	(68,947)
Net increase/(decrease) in cash		67,608	(104)
Cash at 1 July		5,502	5,239
Effects of exchange rate fluctuations on cash held		(19)	367
Cash at 30 June	31(i)	73,091	5,502

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 55 to 105.

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 2012 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is a for profit entity and primarily involved in the renting, maintaining and selling of heavy earthmoving equipment to customers in the mining industry (refer note 16).

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 20 August 2012.

(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
- financial instruments at fair value through profit or loss are measured at fair value

The methods used to measure fair values are discussed further in note 5.

(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 21.

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 12.

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 27.

(e) Changes in accounting policies

From 1 July 2011 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) 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.

(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.

(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 from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short term commitments.

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.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised costs using the effective interest rate method unless the Group has applied fair value hedge accounting, in which case the non-derivative financial liability or a portion is recognised at fair value in profit or loss.

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.

Derivatives are recognised initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

Fair value hedges

The risk being hedged in a fair value hedge is a change in the fair value of an asset or liability or unrecognised firm commitment that may affect the income statement. Changes in fair value might arise through changes in interest rates or foreign exchange rates. The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates. The application of fair value hedge accounting results in the fair value adjustment on the hedged item attributable to the hedged risk being recognised in the income statement at the same time the hedging instrument impacts the income statement. If a hedging relationship is terminated, the fair value adjustment to the hedged item continues to be recognised as part of the carrying amount of the item or group of items and is amortised to the income statement as a part of the effective yield over the period to maturity. Where the hedged item is derecognised from the Group's balance sheet, the fair value adjustment is included in the income statement as a part of the gain or loss on disposal.

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (CONTINUED)

(iv) Share capital

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 following:

- the cost of materials and direct labour,
- any other costs directly attributable to bringing the assets to a working condition for their intended use,
- when the Group has an obligation to remove the assets or restore the site, and estimate of the costs of dismantling and removing the items and restoring the site on which they are located, and
- capitalised borrowing costs.

Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. 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.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. 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 and on-going repairs and maintenance are expensed as incurred.

(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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Intangible assets and goodwill

(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

Except for goodwill, intangible assets are amortised on a straight line basis in profit or loss over their estimated useful lives, from the date they are available for use.

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.

(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 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 there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss events had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment (CONTINUED)

(i) Non-derivative financial assets (CONTINUED)

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. All individually significant assets are assessed for specific impairment.

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 an event occurring after the impairment loss was recognised 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. Goodwill and indefinite life intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash generating unit (CGU) exceeds its 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. For other assets, 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 2012 as part of the Group's process of annually testing goodwill for impairment.

(j) Assets held for sale or distribution

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 and investment property 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.

Once classified as held for sale or distribution, intangible assets and property, plant and equipment are no longer amortised or depreciated.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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. The share option programme concluded on 4 August 2011.

(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 95 Companies (this number may change as a result of takeovers, mergers etc) and includes 18 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Employee benefits (CONTINUED)

(v) Share based payment transactions (CONTINUED)

(d) In FY11 an employee share ownership plan (ESOP) was established to allow certain employees to acquire shares in the Company via salary sacrifice up to a limit of $5,000 each year. 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. For all previous LTIP and ESOP plans, all LTIP and ESOP recipients are entitled to any dividends that are declared during the vesting period. For the Group's Executives, commencing with the FY13 grant and all subsequent grants, dividends or shadow dividends will not be paid on any unvested securities and dividends or shadow dividends will accrue on unvested LTI securities and will only be paid at the time of vesting on those LTI securities that vest, provided all vesting conditions are met.

(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) Leases

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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(p) Tax

Tax expense comprises current and deferred tax. Current tax 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

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale or distribution, 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) Segment reporting

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.

4 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 2011, 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 2016 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not currently intend to adopt this standard early and the extent of the impact has not been determined.

5 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. When 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. Where this fair value is determined for disclosure purposes or when acquired in a business combination, the market rate of interest is that at the date of acquisition.

(v) Forward exchange contracts and interest rate swaps

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 credit adjusted 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. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(vi) Other 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.

(viii) Equity and debt securities

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted determined using a valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market related discount rate. The fair value of held to maturity investments is determined for disclosure purposes only.

6 FINANCIAL INSTRUMENTS

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.

6 FINANCIAL INSTRUMENTS (CONTINUED)

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 the Internal Audit function. 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:

		Consolidated	
		Carrying amount	
	Note	2012 $'000	2011 $'000
Trade receivables	18	91,695	87,963
Other receivables	18	9,403	7,168
Cash and cash equivalents	17	73,091	5,502
Derivatives	19	4,419	285
		178,608	100,918

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 are 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 creditworthiness 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 (2011: $750 million). The Australian business held insurance for the entire financial year ended 30 June 2012. The Indonesian business established insurance on its receivables in November 2011. The Canadian business does not have credit risk insurance.

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 2012 the Group had impairment for doubtful debts of $2.1 million (2011: $12.2 million). The decrease in the impairment of doubtful debts was largely due to reversal upon recognition of a bad debt relating to one customer in the Indonesian business that was provided for in FY11 amounting to $9.8 million (pre-tax).

6 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (CONTINUED)

Trade and other receivables (continued)

As at 30 June 2012 the Group recognised bad debt write-offs for a total amount of $11.1 million (2011: $1.7 million) of which $10.9 million related to two customers in the Indonesian business that were fully provided for as doubtful debts at 30 June 2011.

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 $73.1 million at 30 June 2012 (2011: $5.5 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-.

The Group also held interest rate swaps and cross currency interest rate swaps of $1.8 million and $2.5 million respectively at 30 June 2012, which represents its maximum credit exposure on these assets. The interest rate swaps and cross currency interest rate swaps are held with bank and financial institution counter parties which are rated greater than A-.

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

	Consolidated	
	Carrying amount	
	2012 $'000	2011 $'000
Australia	55,281	57,609
Asia	18,814	22,049
North America	17,600	8,305
	91,695	87,963

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

	Consolidated	
	Carrying amount	
	2012 $'000	2011 $'000
Insured	47,962	41,137
Blue Chip (including subsidiaries)	36,552	17,176
Other security	2	2,810
Uninsured	7,179	26,840
	91,695	87,963

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

	Consolidated		Consolidated	
	Gross	Impairment	Gross	
	2012 $'000	2012 $'000	2011 $'000	2011 $'000
Not past due	35,614	(22)	42,385	(444)
Past due 0-30 days	39,491	(155)	21,196	(46)
Past due 31-60 days	5,896	(101)	6,707	(565)
Past due 61 days	10,694	(1,811)	17,675	(11,110)
	91,695	(2,089)	87,963	(12,165)

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

	Consolidated	
	2012 $'000	2011 $'000
Balance at 1 July	12,165	6,652
Bad debt written off	(11,083)	(1,664)
Change in provision for doubtful debts	1,007	7,177
Balance at 30 June	2,089	12,165

6 FINANCIAL INSTRUMENTS (CONTINUED)

Collateral

Collateral is held for customers that are assessed to be a higher risk. At 30 June 2012 the Group held $2.8 million of bank guarantees (2011: $2.7 million) and $0.1 million of prepayments (2011: $0.1 million).

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 2012 $122,500 guarantees were outstanding (2011: $342,500).

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) 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 debt facility also comprises of one year $22.1 million (2011: $26.9 million) working capital facility. The debt facility is a revolver. At year end the undrawn portion of the debt facilities was $169.9 million (2011: $198.9 million). The Group recently issued secured fixed interest notes in the United States Private Placement market (USPP) comprising US$140.0 million of which US$40.0 million matures on 22 May 2019 and US$100.0 million which matures 22 May 2022. These notes will remain fully drawn until maturity (refer note 24). The Group also has finance lease facilities totalling $15.7 million which matures on 15 August 2015.

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

Consolidated 30 June 2012	Carrying amount $'000	Contractual cash flows $'000	6 mths or less $'000	6-12 mths $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
Non-derivative financial liabilities							
Secured bank loans	(299,920)	(324,327)	(6,372)	(6,372)	(249,059)	(62,524)	–
Secured notes issue	(139,992)	(201,990)	(3,491)	(3,491)	(6,982)	(20,946)	(167,080)
Finance lease liabilities	(15,697)	(18,058)	(2,181)	(2,181)	(4,362)	(9,334)	–
Trade and other payables	(64,296)	(64,296)	(64,296)	–	–	–	–
	(519,905)	(608,671)	(76,340)	(12,044)	(260,403)	(92,804)	(167,080)
Derivative financial liabilities							
Interest rate swaps used for hedging asset/(liability)	(5,608)	(5,725)	(1,902)	(1,998)	(1,589)	(236)	–
Interest rate swaps used for hedging asset/(liability)	1,801	1,803	303	327	612	1,340	(779)
Cross-currency interest rate swaps used for hedging asset/(liability)	2,519	10,436	511	375	821	3,694	5,035
Forward exchange contracts used for hedging:							
Outflow	106	(6,339)	(6,339)	–	–	–	–
Inflow	(7)	6,241	6,241	–	–	–	–
	(1,189)	6,416	(1,186)	(1,296)	(156)	4,798	4,256

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

6 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (CONTINUED)

Consolidated 30 June 2011	Carrying amount $'000	Contractual cash flows $'000	6 mths or less $'000	6-12 mths $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
Non-derivative financial liabilities							
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	(42,694)	(42,694)	(42,694)	–	–	–	–
	(339,699)	(357,404)	(52,122)	(9,226)	(18,452)	(277,604)	–
Derivative financial liabilities							
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	–	–	–	–
	(5,703)	(6,409)	(2,630)	(1,191)	(2,135)	(453)	–

The gross inflows/(outflows) disclosed in the previous table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are usually not closed out prior to contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement, e.g. forward exchange contracts.

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) and Canadian Dollars (CAD). The currencies in which these transactions primarily are denominated are AUD, USD, CAD, Euro dollars (EURO), Indonesian Rupiah (IDR), Chilean Peso (PSO) and Japanese Yen (YEN).

The Group hedges all trade receivables and trade payables that are denominated in a currency that is not the functional currency of the respective subsidiary exposed to the transaction, and is an amount 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 from the syndicated debt facility is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily AUD, but also USD and CAD. 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 currency exposure denominated on the senior debt facility is not hedged to manage the risk of breaching its syndicated debt facility limit of $450.0 million as the Group considers there to be appropriate headroom for any adverse movement in exchange rates (refer note 25).

In May 2012 the Group issued US$140.0 million of notes in the USPP market of which US$20.0 million and US$30.0 million of the 7 and 10 year maturities, respectively, were swapped back to AUD through the use of cross currency interest rate swaps. As derivatives have been entered into, hedge accounting will apply to these instruments. The remainder of the USD foreign exchange exposure at 30 June 2012 is expected to be offset by financial assets denominated in the same currency providing an economic hedge without derivatives being entered into. In addition, some of the Group's subsidiaries operate in USD which further mitigates the USD foreign currency exposure.

6 FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (CONTINUED)

Exposure to currency risk

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

	30 June 2012			30 June 2011		
	AUD $'000	USD $'000	YEN $'000	EUR $'000	USD $'000	CAD $'000
Cash	–	44,212	–	–	–	–
Senior secured debt	–	–	–	–	–	–
Secured notes issued	–	(94,336)	–	–	–	–
Gross balance sheet exposure	–	(50,124)	–	–	–	–
Cross currency interest rate swap to hedge the secured notes issued	–	49,155	–	–	–	–
Forecast purchases	–	(4,471)	(1,108)	(731)	(7,276)	762
Forward exchange contracts (1)	–	4,389	1,091	723	7,144	(759)
Net exposure	–	(1,051)	(17)	(8)	(132)	3

(1) Forecast purchases for which the forward exchange contracts were entered into are disclosed.
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.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2012	2011	2012	2011
CAD	1.0342	0.9879	1.0423	1.0367
USD	1.0319	0.9872	1.0172	1.0724
EURO	0.7704	0.7239	0.8084	0.7401
IDR	9,231	8,731	9,545	9,198
YEN	81.12	81.63	80.34	86.19

Sensitivity analysis

A strengthening of the Australian dollar, as indicated below, against the following currencies at 30 June 2012 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 2011, as indicated below:

	Consolidated			
	Strengthening		Weakening	
	Equity $'000	Profit or loss $'000	Equity $'000	Profit or loss $'000
30 June 2012				
USD (10 percent movement)	(2,398)	(90)	2,398	90
YEN (10 percent movement)	–	–	–	–
CAD (10 percent movement)	–	180	–	(180)
30 June 2011				
USD (10 percent movement)	(557)	–	(557)	–
EURO (10 percent movement)	(45)	–	45	–
YEN (10 percent movement)	(136)	–	136	–
CAD (10 percent movement)	(294)	–	294	–

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 achieved by entering into interest rate swaps and the issue of fixed interest notes.

6 FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (CONTINUED)

Profile

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

		Consolidated	
	Note	2012 $'000	2011 $'000
Variable rate instruments:			
Cash at bank	17	73,091	5,502
Interest bearing liabilities		(299,920)	(278,000)
Effective interest rate swaps to hedge interest rate risk			
Australian dollar (USPP US$50m)		2,519	–
US dollar (USPP US$40m)		1,801	–
Australian dollars (A$80M)		(2,607)	(924)
Canadian dollars C$120M (2011: C$80M) (1)		(2,827)	(4,622)
United States dollars USD$15M (2011: USD$15M)		(174)	(435)
		(228,117)	(278,479)
Fixed rate instruments:			
Interest bearing liabilities (notes)	24	(141,807)	–
Interest bearing finance leases	24	(15,697)	(19,005)
		(157,504)	(19,005)

(1) Includes C$40M forward start swaps.

The Group classifies its debt related derivatives into three categories being floating-to-fixed interest rate swaps, fixed-to-floating interest rate swaps and cross currency interest rate swaps.

Cash flow hedges and fair value hedges

The floating-to-fixed interest rate swaps (hedging instrument) are designated as cash flow hedges through equity. Therefore a change in interest rates at the reporting date would not affect profit or loss to the extent they are effective hedges. The interest rate swaps are designated to hedge the exposure to variability in cash flows attributed to market interest rate risk.

The fixed-to-floating interest rate swaps (hedging instrument) are accounted for as fair value hedges. Therefore a change in interest rates at the reporting date affects profit or loss. The interest rate swaps are designated to hedge the exposure to liquidity risk through the benchmark interest rate.

The cross currency interest rate swaps (hedging instrument) are accounted for as both cash flow hedges and fair value hedges. The cross currency interest rate swaps are designated to hedge the exposure to variability in foreign exchange rates and exposure to liquidity risk through the benchmark interest rate.

Fair value sensitivity analysis for fixed rate instruments

The Group accounts for certain fixed rate financial liabilities at fair value through profit or loss, and the Group designates 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 affect profit or loss and not equity on these instruments.

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
Fair Value Hedges	100bp increase $'000	100bp decrease $'000	100bp increase $'000	100bp decrease $'000
30 June 2012				
Fixed rate instruments (USPP)	7,996	(7,996)	–	–
Interest rate swap	(7,996)	7,996	–	–
Cash flow sensitivity (net)	–	–	–	–
30 June 2011				
Fixed rate instruments	–	–	–	–
Interest rate swap	–	–	–	–
Cash flow sensitivity (net)	–	–	–	–

6 FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (CONTINUED)

Fair value sensitivity analysis for fixed rate instruments (continued)

Detailed below is the profit and loss impact of fair value hedges during the year.

	Profit or loss	
Financial Instrument	**2012 $'000**	**2011 $'000**
Floating to Fixed		
– Swap	–	–
– Hedged Item (debt)	–	–
Fixed to Floating		
– Swap	1,801	–
– Hedged item (debt)	(1,875)	–
Cross currency interest rate swap		
– Swap	2,519	–
– Hedged item (debt)	(2,299)	–
Net Profit and loss impact before tax	146	–

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 2011.

	Profit or loss		Equity	
Cash Flow Hedges	**100bp increase $'000**	**100bp decrease $'000**	**100bp increase $'000**	**100bp decrease $'000**
30 June 2012				
Variable rate instruments	(708)	708	–	–
Interest rate swap	–	–	(2,139)	2,139
Cash flow sensitivity (net)	(708)	708	(2,139)	2,139
30 June 2011				
Variable rate instruments	(1,168)	1,168	–	–
Interest rate swap	–	–	(2,746)	2,746
Cash flow sensitivity (net)	(1,168)	1,168	(2,746)	2,746

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:

	2012	2011
Derivatives	0.3% – 5.0%	0.2% – 5.2%
Loans and borrowings	0.2% – 5.0%	1.6% – 7.2%
USPP	4.6% – 5.3%	n/a – n/a
Leases	7.2% – 7.2%	0.3% – 7.2%

6 FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (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:

		30 June 2012		30 June 2011	
	Note	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Assets carried at fair value					
Interest rate swaps used for hedging	19	4,320	4,320	–	–
Forward exchange contracts used for hedging	19	99	99	285	285
		4,419	4,419	285	285
Assets carried at amortised cost					
Receivables	18	99,009	99,009	83,251	83,251
Cash and cash equivalents	17	73,091	73,091	5,502	5,502
		172,100	172,100	88,753	88,753
Liabilities carried at fair value					
Secured notes issue (USD $90m)	24	(91,485)	(92,652)	–	–
Interest rate swaps used for hedging	19	(5,608)	(5,608)	(5,981)	(5,981)
Forward exchange contracts used for hedging	19	–	–	(7)	(7)
		(97,093)	(98,260)	(5,988)	(5,988)
Liabilities carried at amortised cost					
Secured bank loans	24	(299,920)	(301,980)	(278,000)	(274,798)
Secured notes issue (USD $50m)	24	(48,507)	(51,473)	–	–
Finance lease liabilities	24	(15,697)	(18,058)	(19,005)	(22,627)
Trade and other payables	23	(69,906)	(69,906)	(42,694)	(42,694)
		(434,030)	(441,417)	(339,699)	(340,119)

The basis for determining fair values is disclosed in note 5.

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.

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 issue of US$140.0 million notes in the USPP market diversifies the Group's source of debt funding and extends the Group's debt maturity profile with the notes being tranches of 7 and 10 years.

The Board of Directors also evaluates and monitors the level of distributions to ordinary shareholders in the form of dividends or other capital initiatives. In addition to the payment of dividends in FY12, on 20 August 2012, the Board approved an on-market buyback up to a maximum of 5% (31,561,879) of the Company's shares over the next 12 months.

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 excluding the effects of hedge accounting and fair value adjustments 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 1.4 times to 1.8 times (2011: 1.2 – 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 13.0% (2011: (10.3%)). This includes non-recurring items of $1.1 million (after tax). Had the non-recurring items not been included the Group EBIT return on capital for the year would have been 13.2% (2011: 11.3%).

6 FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (CONTINUED)

Capital management (continued)

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

	Consolidated	
	2012 $'000	**2011 $'000**
EBIT (for continuing and discontinued operations)	124,566	92,348
Average invested capital	955,595	896,856
EBIT return on capital at 30 June	13.0%	10.3%

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.

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.

7 OTHER INCOME

	Consolidated	
	2012 $'000	**2011 $'000**
Net profit on sale of non current assets (1)	3,503	2,756
Sundry income (2)	397	4,455
	3,900	7,211

(1) Included in net profit on the sale of non-current assets is the sale of rental equipment. The gross proceeds from the sale of this equipment is $35.0 million (2011: $47.5 million).
(2) Included in sundry income are fees charged on overdue accounts, bad debts recovered, procurement fees on machines sourced for 3rd parties and insurance receivables.

8 PROFIT BEFORE INCOME TAX EXPENSE FOR CONTINUING OPERATIONS

		Consolidated	
	Note	2012 $'000	2011 $'000
Profit before income tax expense has been arrived at after charging/(crediting) the following items:			
Cost of sale of machines and parts		68,887	69,432
Cost of sales inventory on rent	20	1,478	1,579
Impairment of tangible assets:			
– inventory	20	1,277	841
– property, plant and equipment	22	210	2,931
		1,487	3,772
Employee expenses:			
– superannuation		4,839	3,036
Other expenses:			
– bad debts [1]		11,083	1,506
– doubtful debts/(reversal)		(10,348)	9,762
– insurance		3,616	3,074
– motor vehicles		4,125	4,616
– rental expense		3,574	3,209
– safety		1,612	1,199
– travel and subsistence expense		3,021	2,367
– telecommunications		1,718	1,726
– workshop consumables, tooling and labour		4,732	3,639
– other expenses		8,787	11,100
		31,920	42,198
Depreciation of:			
– buildings		1,732	1,172
– plant and equipment – owned		126,143	112,676
– plant and equipment – leased		3,810	4,311
– furniture fittings and fixtures		140	119
– office equipment		445	379
– motor vehicles		1,040	1,087
– leasehold improvements		680	449
– sundry plant		1,480	1,722
		135,470	121,915
Amortisation of:			
– other intangibles		217	258
		217	258
Total depreciation, amortisation and impairment of goodwill		135,687	122,173
Financial expenses:			
– interest expense		21,451	19,105
– ineffective hedge expense/(reversal)		3	(392)
– amortisation of debt establishment costs		1,180	2,066
– other facility costs		2,141	2,461
		24,775	23,240
Financial income:			
– interest revenue		(361)	(281)
Net financial expenses		24,414	22,959
Net foreign exchange (gain)/loss		(416)	186

(1) $10.9 million of the $11.1 million bad debt expense in FY12 related to two debtors in the Indonesian business that was provided for as a doubtful debt in FY11 (refer note 6).

9 AUDITOR'S REMUNERATION

	Consolidated	
	2012 $	2011 $
Audit services		
Auditors of the Company		
KPMG Australia:		
– audit and review of financial reports	441,200	426,000
Overseas KPMG Firms:		
– audit and review of financial reports	181,123	185,682
	622,323	611,682
Other services		
Auditors of the Company		
KPMG Australia:		
– taxation services (1)	192,280	86,060
Overseas KPMG Firms:		
– taxation services	64,841	78,162
– accounting assistance	–	39,587
	257,121	203,809
	879,444	815,491

(1) The increase in taxation services during FY12 represents the taxation advice relating to the Group's decision to enter the Chile market. It is also due to the taxation advice required for expatriate employees participating in the Group's employee share scheme.

10 TAXES

(a) Recognition in the income statement

		Consolidated	
	Note	2012 $'000	2011 $'000
Current tax expense:			
Current year		36,784	23,087
Adjustments for prior years		82	(514)
		36,866	22,573
Deferred tax expenses:			
Origination and reversal of temporary differences		(6,460)	(2,391)
Reduction in tax rate		–	(455)
Adjustment for prior years		–	–
	12	(6,460)	(2,846)
Tax expense		30,406	19,727
Tax expense from continuing operations		30,434	20,273
Tax expense/(benefit) from discontinued operations	14	(28)	(473)
Tax expense/(benefit) from loss on sale of discontinued operations		–	(73)
Total tax expense		30,406	19,727

10 TAXES (CONTINUED)

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

	Consolidated	
	2012 $'000	2011 $'000
Share purchase costs	641	2,054
Capital raising costs	–	1,380
	641	3,434

Tax recognised in other comprehensive income

	Consolidated 2012			Consolidated 2011		
	Before Tax $'000	Tax (expense) benefit $'000	Net of tax $'000	Before Tax $'000	Tax (expense) benefit $'000	Net of tax $'000
Foreign currency translation differences for foreign operations	3,252	–	3,252	(16,978)	–	(16,978)
FCTR of discontinued operations disposed [1]	156	–	156	420	–	420
Cash flow hedges	(102)	48	(54)	5,648	(2,389)	3,259
	3,306	48	3,354	(10,910)	(2,389)	(13,299)

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

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

	Consolidated	
	2012 $'000	2011 $'000
Prima facie tax expense calculated at 30% on net profit	30,122	21,129
Increase/(decrease) in income tax expense due to:		
Effect on tax rate in foreign jurisdictions	(286)	(658)
Current year losses for which no deferred tax asset was recognised	3	(380)
Bad debt expense	294	–
Reduction in tax rate in foreign jurisdictions	–	(455)
Superannuation adjustment	366	–
Sundry	(175)	605
Under/(over) provided in prior years	82	(514)
Tax expense	30,406	19,727

11 CURRENT TAX ASSETS AND LIABILITIES

The current tax asset for the Group of $563,000 (2011: $427,000) 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 $14,100,000 (2011: $6,790,000) represents the amount of income taxes payable in respect of current and prior financial periods.

12 DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Consolidated	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Property, plant and equipment	(84)	(6,892)	40,881	40,534	40,797	33,642
Intangible assets	(37)	(17)	–	–	(37)	(17)
Receivables	(4,124)	(4,386)	222	1,424	(3,902)	(2,962)
Inventories	(4)	(103)	1,365	1,244	1,361	1,141
Payables	(6,707)	(3,871)	–	11	(6,707)	(3,860)
Derivatives – hedge payable	(1,683)	(1,794)	–	85	(1,683)	(1,709)
Derivatives – hedge receivable	–	–	1,296	–	1,296	–
Interest-bearing loans and borrowings	(1,391)	(19)	6,358	4,170	4,967	4,151
Employee benefits	(1,710)	(1,525)	4	–	(1,706)	(1,525)
Equity – capital raising costs	(8)	(30)	–	–	(8)	(30)
Provisions	(110)	(2,871)	–	–	(110)	(2,871)
Tax losses carried forward	(3,272)	(2,017)	–	–	(3,272)	(2,017)
Tax (assets)/liabilities	(19,130)	(23,525)	50,126	47,468	30,996	23,943
Set off of tax	19,020	23,525	(19,020)	(23,525)	–	–
Net tax (assets)/liabilities	(110)	–	31,106	23,943	30,996	23,943

Movement in deferred tax balances

	Consolidated				
	Balance 1 July 11 $'000	Recognised in profit or loss $'000	Recognised directly in equity $'000	Recognised in other comprehensive income $'000	Balance 30 June 12 $'000
Property, plant and equipment	33,642	7,155	–	–	40,797
Intangible assets	(17)	(20)	–	–	(37)
Receivables	(2,962)	(940)	–	–	(3,902)
Inventories	1,141	220	–	–	1,361
Payables	(3,860)	(2,847)	–	–	(6,707)
Derivatives – hedge payable	(1,709)	–	–	26	(1,683)
Derivatives – hedge receivable	–	1,370	–	(74)	1,296
Interest-bearing loans and borrowings	4,151	816	–	–	4,967
Employee benefits	(1,525)	(181)	–	–	(1,706)
Equity – capital raising costs	(30)	(619)	641	–	(8)
Provisions	(2,871)	2,761	–	–	(110)
Tax losses carried forward	(2,017)	(1,255)	–	–	(3,272)
	23,943	6,460	641	(48)	30,996

12 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

Movement in deferred tax balances

	Consolidated				
	Balance 1 July 10 $'000	Recognised in profit or loss $'000	Recognised directly in equity $'000	Recognised in other comprehensive income $'000	Balance 30 June 11 $'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	
	2012 $'000	2011 $'000
The following deferred tax assets have not been brought to account as assets:		
Tax losses	16,530	16,486

13 CAPITAL AND RESERVES

	Consolidated	
	2012 $'000	2011 $'000
Share capital		
631,237,586 (2011: 631,237,586) ordinary shares, fully paid	686,311	686,191
Acquisition reserve	(75,887)	(75,887)
	610,424	610,304

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. The options 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 will remain in the reserve. As at 30 June 2012 the Company held 17,943,211 treasury shares (2011: 18,300,000) in satisfaction of the employee share plans.

13 CAPITAL AND RESERVES (CONTINUED)

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 hedges related to hedged transactions that have not yet affected profit or loss.

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)).

Dividends

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

2012	Cents per share	Total amount $'000	Franked/ unfranked	Date of payment
Final 2011 ordinary	3.0	18,937	Franked	30 September 2011
Interim 2012 ordinary	2.5	15,781	Franked	29 March 2012
		34,718		

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

Subsequent to 30 June 2012

After 30 June 2012 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.

2012	Cents per share	Total amount $'000	Franked/ unfranked	Date of payment
Final 2012 ordinary	3.5	22,093	Franked	28 September 2012
Total amount		22,093		

The financial effect of these dividends has not been brought to account in the financial statements for the financial year ended 30 June 2012 and will be recognised in subsequent financial reports.

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

2011	Cents per share	Total amount $'000	Franked/ unfranked	Date of payment
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
		56,811		

(ii) Franking account

	The Company	
	2012 $'000	2011 $'000
Dividend franking account		
30% franking credits available to shareholders of Emeco Holdings Limited for subsequent financial years	59,733	45,625

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 $9,468,000 (2011: $8,116,000). 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 $59,733,000 (2011: $45,625,000) franking credits.

14 DISCONTINUED OPERATIONS

As at 30 June 2012 the discontinued operations consisted of the Victorian Rental business and Emeco Europe. The Victorian Rental business has significantly decreased its assets and only holds minimal assets available for sale.

The USA business was materially disposed of in FY11 and was presented as a discontinued operation for this prior comparative period. During FY12, the Group reclassified the USA discontinued operations to continuing operations, which largely comprises one employee, now serves as a part of the Global Asset team function.

	2012 $'000	2011 $'000
Losses of discontinued operations		
Revenue	523	12,984
Other income	10	529
Direct costs	(208)	(7,651)
Profit/(loss) on sale of assets	220	(157)
Writeback/(writedown) of stock	–	871
Impairment of fixed assets	(365)	(2,024)
Bad debts expense	–	(158)
Other expenses	(24)	(1,608)
Employee expenses	(113)	(1,101)
Restructure costs	–	210
FCTR on discontinued operations disposed	(156)	420
Loss on sale of discontinued operations	–	(424)
EBITDA	(113)	1,891
Depreciation	(142)	(2,749)
EBIT	(255)	(858)
Net finance expenses	–	(53)
Income tax	28	473
Income tax on sale of discontinued operations	–	73
Loss for the period	(227)	(365)
Earnings per share	(0.000)	(0.001)

The loss from discontinued operation of $227,000 (2011: loss of $365,000) is attributable entirely to the owners of the Company.

	2012 $'000	2011 $'000
Cash flows from (used in) discontinued operation		
Net cash used in operating activities	(282)	3,633
Net cash from investing activities	7,569	23,840
Net cash from financing activities	(7,349)	(27,684)
Net cash from (used in) discontinued operation	(62)	(211)

	2012 $'000	2011 $'000
Effect of disposal on the financial position of the Group		
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)

15 DISPOSAL GROUPS HELD FOR SALE

At 30 June 2012 the disposal groups comprised asset of $0.4 million (2011: $8.7 million) and liabilities $Nil (2011: $Nil) being the remaining Victorian rental assets yet to be disposed.

	2012 $'000	2011 $'000
Assets classified as held for sale		
Property, plant and equipment	405	8,169
Trade and other receivables	–	559
	405	8,728

16 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.
Chile	Provides a wide range of earthmoving equipment and maintenance service to customers in Chile.
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.

Information about reportable segments 2012

	Australian Rental $'000	Victorian Rental [1] (discont'd) $'000	Australian Sales $'000	Australian Parts $'000	Indonesia $'000	Canada $'000	Chile Rental $'000	Other $'000	Europe (discont'd) $'000	Total $'000
External revenues	383,254	505	50,152	14,636	49,931	67,197	–	–	–	565,675
Inter-segment revenue	3,721	–	26	7,149	1,853	–	–	–	18	12,767
Depreciation	(100,157)	(142)	(236)	(123)	(15,224)	(19,732)	–	–	–	(135,612)
Reportable segment profit/(loss) before interest and income tax	115,552	(92)	2,371	439	9,955	16,155	(597)	(317)	(163)	143,304
Other material non-cash items:										
Impairment on property, plant and equipment and intangible assets	(203)	(365)	–	–	(7)	–	–	–	–	(575)
Reportable segment assets	708,129	405	15,947	22,001	141,978	248,119	6,278	169	–	1,143,026
Capital expenditure	(138,058)	–	–	–	(72,645)	(118,409)	(5,203)	–	–	(334,315)
Reportable segment liabilities	(49,160)	–	(5,026)	(2,198)	(36,980)	(20,853)	(5,784)	(119)	–	(120,120)

16 SEGMENT REPORTING (CONTINUED)

Information about reportable segments 2011

	Australian Rental $'000	Victorian Rental [1] (discont'd) $'000	Australian Sales $'000	Australian Parts $'000	Indonesia $'000	Canada $'000	Chile Rental $'000	Other (discont'd) $'000	Europe (discont'd) $'000	Total $'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) 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 equipment and intangible assets	–	(2,025)	–	–	(3,331)	–	–	–	–	(5,356)
Reversal of impairment on property, plant and equipment and intangible 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)

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

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

	2012 $'000	2011 $'000
Revenues		
Total revenue for reportable segments	578,442	528,743
Elimination of inter-segment revenue	(12,767)	(13,264)
Elimination of discontinued operations	(505)	(12,984)
Consolidated revenue from continuing operations	565,170	502,495
Profit or loss		
Total EBIT for reportable segments	143,304	109,136
Elimination of discontinued operations	254	858
Unallocated amounts:		
Other corporate expenses	(18,738)	(16,788)
Net interest expense	(24,414)	(22,959)
Consolidated profit before income tax from continuing operations	100,406	70,247
Assets		
Total assets for reportable segments	1,143,026	975,650
Unallocated assets	73,091	5,502
Consolidated total assets	1,216,117	981,152
Liabilities		
Total liabilities for reportable segments	120,120	85,115
Unallocated liabilities	455,609	293,803
Consolidated total liabilities	575,729	378,918

	Reportable segment totals $'000	Discontinued operations $'000	Consolidated Total $'000
Other material items 2012			
Capital expenditure	(334,315)	–	(334,315)
Depreciation	(135,612)	142	(135,470)
Other material items 2011			
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

16 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 [1]	Rental, sales and parts divisions throughout Australia
Asia	Rental division in Indonesia
North America [2]	Rental, sales and parts divisions throughout North America
South America	Rental division in Chile
Europe	Rental and sales division in Netherlands (Discontinued in 2010)

Geographical segments

	Australia		Asia		North America		South America		Europe (discont'd)		Consolidated	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Revenue	448,547	402,520	49,931	44,596	67,197	67,954	–	–	–	409	565,675	515,479
Non-current[3] Assets	669,356	649,668	114,106	58,809	215,189	123,885	5,327	–	–	–	1,003,978	832,362

(1) The Victorian Rental business, in the Australian geographic segment, was classified as discontinued in 2010. This represented revenue of $505,000 (2011: $9,507,000) for the year ended 30 June 2012.
(2) North American segment consists of the Canadian and USA businesses.
(3) 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

In the year ended 30 June 2012 the Group had no single major customer that would amount to 10% or more of the Group's total revenues.

17 CASH ASSETS

	Consolidated	
	2012 $'000	2011 $'000
Cash at bank	73,091	5,502

18 TRADE AND OTHER RECEIVABLES

	Consolidated	
	2012 $'000	2011 $'000
Current		
Trade receivables	91,695	87,963
Trade receivables due from related parties		
Less: Impairment of receivables	(2,089)	(12,165)
	89,606	75,798
Other receivables	9,403	7,168
	99,009	82,966
Non-Current		
Other receivables	1,057	581
	1,057	581

The Group's exposure to credit risks, currency risks and impairment losses associated with trade and other receivables are disclosed in note 6.

19 DERIVATIVES

	Consolidated	
	2012 $'000	2011 $'000
Current Assets		
Forward exchange contract	99	285
Interest rate swaps	308	–
Cross currency interest rate swaps	369	–
	776	285
Non Current Assets		
Interest rate swaps	1,493	–
Cross currency interest rate swaps	2,150	–
	3,643	–
Current Liabilities		
Interest rate swaps	(2,239)	(3,543)
	(2,239)	(3,543)
Non Current Liabilities		
Interest rate swaps	(3,369)	(2,160)
	(3,369)	(2,160)

20 INVENTORIES

	Consolidated	
	2012 $'000	2011 $'000
Equipment and Parts – at cost	26,797	33,007
Work in progress – at cost	2,730	4,557
Consumables, spare parts – at cost	2,729	1,288
Total at cost	32,256	38,852
Equipment and Parts – at NRV (1)	2,858	9,717
Total inventory	35,114	48,569
Balance at 1 July	48,569	87,017
Additions	44,758	23,679
Impairment loss on inventory (1)	(1,277)	(841)
Cost of sales inventory on rent (1)	(1,478)	(1,579)
Disposals	(55,458)	(59,707)
Balance at 30 June	35,114	48,569

(1) During the year ended 30 June 2012 the write-down of inventories to net realisable value (NRV) recognised as an expense in the Statement of Comprehensive Income amounted to $2,755,000 (2011: $2,420,000).

21 INTANGIBLE ASSETS AND GOODWILL

	Consolidated	
	2012 $'000	2011 $'000
Goodwill		
Carrying amount at the beginning of the year	172,830	177,665
Impairment of goodwill	–	–
Effects of movement in foreign exchange	806	(4,835)
	173,636	172,830
Contract intangibles – at cost	712	712
Less: Accumulated amortisation	(712)	(712)
	–	–
Other intangibles – at cost	2,062	1,946
Less: Accumulated depreciation	(1,750)	(1,528)
	312	418
Total intangible assets	173,948	173,248

Amortisation and impairment losses

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

	Consolidated	
	2012 $'000	2011 $'000
Amortisation expense	217	258
Impairment of goodwill	–	–
Total expense for the year for continuing operations	217	258

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	
	2012 $'000	2011 $'000
Australian rental	151,745	151,745
Canada rental	5,637	5,667
Asian rental	16,255	15,418
Total rental	173,637	172,830

The Group has determined the recoverable amount of its cash generating units (CGU) using a value in use methodology (2011: 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 2012. 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 5.4% and 7.6% (2011: 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 FY13 and translate in part to year on year revenue growth, mostly in Indonesia and Canada. The second year of the business plan will also be influenced to the extent that 100% of the FY13 capital investment will contribute to revenue in FY14. Subsequent revenue growth rates are assumed to be between a range of 2.0% – 3.0% per year (2011: 2.0% – 3.0%) representing anticipated improvements in capital turnover and margins. Compound annual growth rates over the first six years of the forecast range between 2.0% (2011: 4.4%) and 10.0% (2011: 8.7%).

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 by increasing the discount rate for each of the CGU's by an additional 2.0% (2011: 2.0%). The sensitised testing confirmed that no impairment would be recognised under this scenario.

22 PROPERTY, PLANT AND EQUIPMENT

	Consolidated	
	2012 $'000	2011 $'000
Freehold land and buildings – at cost	23,801	29,722
Less: Accumulated depreciation	(3,918)	(3,580)
	19,883	26,142
Leasehold improvements at cost	4,936	4,880
Less: Accumulated depreciation	(2,398)	(2,021)
	2,538	2,859
Plant and equipment – at cost	1,254,698	988,624
Less : Accumulated depreciation	(476,671)	(396,903)
	778,027	591,721
Leased plant and equipment – at capitalised cost	21,228	36,125
Less : Accumulated depreciation	(6,127)	(7,165)
	15,101	28,960
Furniture, fixtures and fittings – at cost	1,373	1,178
Less : Accumulated depreciation	(614)	(498)
	759	680
Office equipment – at cost	2,510	3,929
Less : Accumulated depreciation	(1,433)	(2,870)
	1,077	1,059
Motor vehicles – at cost	8,682	7,930
Less : Accumulated depreciation	(4,117)	(3,518)
	4,565	4,412
Sundry plant – at cost	11,984	10,157
Less : Accumulated depreciation	(8,714)	(7,457)
	3,270	2,700
Total property, plant and equipment – at net book value	825,220	658,533

	Consolidated	
	2012 $'000	2011 $'000
Reconciliations Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:		
Freehold land and buildings		
Carrying amount at the beginning of the year	26,142	27,641
Additions	239	686
Depreciation	(1,732)	(1,172)
Disposals	(4,844)	(949)
Effects of movement in foreign exchange	78	(464)
Impairment	–	400
Reclassified to assets held for sale	–	–
Carrying amount at the end of the year	19,883	26,142
Leasehold improvements		
Carrying amount at the beginning of the year	2,859	2,056
Additions	398	1,576
Disposals	(40)	(289)
Depreciation	(680)	(449)
Effects of movement in foreign exchange	1	(35)
Impairment	–	–
Reclassified to assets held for sale	–	–
Carrying amount at the end of the year	2,538	2,859

22 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Consolidated	
	2012 $'000	2011 $'000
Reconciliations (continued)		
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:		
Plant and equipment		
Carrying amount at the beginning of the year	591,721	559,327
Additions	309,772	175,901
Net movement in capital work in progress	6,449	5,945
Transferred from leased plant and equipment	10,049	679
Net movement in rental inventory	12,052	14,615
Disposals	(26,050)	(34,579)
Depreciation	(126,143)	(115,425)
Impairment loss	(210)	(5,355)
Reclassified to assets held for sale	–	–
Effects of movements in foreign exchange	388	(9,387)
Carrying amount at the end of the year	778,027	591,721
Furniture, fixtures and fittings		
Carrying amount at the beginning of the year	680	723
Additions	237	183
Disposals	(19)	(96)
Depreciation	(140)	(119)
Impairment	–	–
Reclassified to assets held for sale	–	–
Effects of movement in foreign exchange	–	(11)
Carrying amount at the end of the year	758	680
Office equipment		
Carrying amount at the beginning of the year	1,059	1,005
Additions	545	510
Disposals	(88)	(59)
Depreciation	(445)	(379)
Impairment	–	–
Reclassified to assets held for sale	–	–
Effects of movement in foreign exchange	6	(18)
Carrying amount at the end of the year	1,077	1,059
Motor vehicles		
Carrying amount at the beginning of the year	4,412	3,030
Additions	1,590	2,659
Disposals	(397)	(139)
Depreciation	(1,040)	(1,087)
Impairment	–	–
Reclassified to assets held for sale	–	–
Effects of movement in foreign exchange	–	(51)
Carrying amount at the end of the year	4,565	4,412
Sundry plant		
Carrying amount at the beginning of the year	2,700	3,823
Additions	2,264	1,393
Disposals	(250)	(729)
Depreciation	(1,480)	(1,722)
Impairment	–	–
Reclassified to assets held for sale	–	–
Effects of movement in foreign exchange	36	(65)
Carrying amount at the end of the year	3,270	2,700

22 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Consolidated	
	2012 $'000	2011 $'000
Reconciliations (continued)		
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:		
Leased plant and equipment		
Carrying amount at the beginning of the year	28,960	12,741
Additions	–	21,229
Transferred to owned plant and equipment	(10,049)	(679)
Disposal	–	–
Depreciation	(3,810)	(4,311)
Effects of movements in foreign exchange	–	(20)
Carrying amount at the end of the year	15,101	28,960

Security

The Group's assets are subject to a fixed and floating charge under the terms of the syndicated debt facility. Refer note 24 for further details.

23 TRADE AND OTHER PAYABLES

	Consolidated	
	2012 $'000	2011 $'000
Trade payables		
Trade payables	20,558	16,664
Other payables and accruals (1)	43,738	26,030
	64,296	42,694

(1) This includes $26.8 million of accruals for equipment received but not yet paid for at 30 June 2012 (2011: $10.3 million).

The Group's exposure to currency and liquidity risk associated with trade and other payables is disclosed in note 6.

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.

24 INTEREST BEARING LIABILITIES

	Consolidated	
	2012 $'000	2011 $'000
Current		
Amortised cost		
Working capital facility	–	–
Lease liabilities – secured	3,339	3,308
	3,339	3,308
Non-current		
Fair value		
Notes issue – secured	92,652	–
Debt raising costs (USPP)	(1,167)	–
Amortised cost		
Bank loans – secured	301,980	278,000
Notes issue – secured	49,155	–
Lease liabilities – secured	12,358	15,697
Debt raising costs (bank loans)	(2,060)	(3,202)
Debt raising costs (USPP)	(648)	–
	452,270	290,495

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 shared proportionately with the noteholders of the USPP notes issue. 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. The syndicated facility allows for funds to be drawn in Australian, United States and Canadian dollars. The nominal interest rate is based on Libor, BBSW and CAD Libor for their respective currencies, plus a margin. The Group's syndicated loan facility is measured at amortised cost. At year end the Group had the following drawn:

	FY12		FY11	
	Funds drawn in functional currency $'000	Funds drawn translated to AUD $'000	Funds drawn in functional currency $'000	Funds drawn translated to AUD $'000
AUD	$80,000	$80,000	$139,000	$139,000
CAD	C$216,000	$207,234	C$118,000	$113,823
USD	US$15,000	$14,746	US$27,000	$25,177

USPP notes issue

Under the terms of the note purchase agreement, the noteholders hold a joint fixed and floating charge with the syndicated bank group over the assets and undertakings of the Group. The US$140.0 million notes were issued on 22 May 2012 and comprises a 7 year US$40.0 million tranche and a US$100.0 million 10 year tranche which matures 22 May 2019 and 22 May 2022 respectively. The nominal interest rate for the 7 and 10 year notes are 4.63% and 5.25% respectively. The US$20.0 million notes, with a maturity of 7 years, and US$30.0 million of notes, with a maturity of 10 years, are measured at amortised cost. The remaining notes are measured at fair value through profit and loss and the Group designated derivatives (interest rate swaps and cross currency interest rate swaps) as hedge instruments against this underlying debt.

	FY12		FY11	
	Funds drawn in functional currency $'000	Funds drawn translated to AUD $'000	Funds drawn in functional currency $'000	Funds drawn translated to AUD $'000
USD	US$140,000	$141,807	n/a	n/a

Working capital facility

The working capital facility is secured under the syndicated facility mentioned above, and has a limit of $20.0 million (2011: $25.0 million). The Group also obtained working capital facilities for Emeco Canada Limited of C$2.0 million (2011: C$2.0 million). The $20.0 million facility expires on 16 November 2012 and it is the intention that it will be renegotiated for another 12 months. The C$2.0 million facility expires 11 December 2012. The working capital facility is undrawn at 30 June 2012.

24 INTEREST BEARING LIABILITIES (CONTINUED)

Other financial liabilities

Under the terms of the syndicated loan facility the Group can enter other permitted indebtedness totalling A$200.0 million (2011: $200.0 million). At year end the Group had established finance lease facilities totalling $15.7 million (2011: $19.0 million) and issued notes in the USPP market totalling US$140.0 million (A$141.8 million) which are included within this permitted indebtedness limit. Assets leased under the facility are secured by the assets leased.

Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

Consolidated	Future minimum lease payments 2012 $'000	Interest 2012 $'000	Present value of minimum lease payments 2012 $'000	Future minimum lease payments 2011 $'000	Interest 2011 $'000	Present value of minimum lease payments 2011 $'000
Less than one year	4,362	(1,023)	3,339	4,570	(1,262)	3,308
Between one and five years	13,696	(1,338)	12,358	18,057	(2,360)	15,697
More than five years	–	–	–	–	–	–
	18,058	(2,361)	15,697	22,627	(3,622)	19,005

The Group leases plant and equipment under finance leases. The Group's lease liabilities are secured by the leased assets of $15,139,000 (2011: $28,960,000). In the event of default, the leased assets revert to the lessor.

25 FINANCING ARRANGEMENTS

The Group has the ability to access the following lines of credit:

	Consolidated	
	2012 $'000	2011 $'000
Total facilities available:		
Bank loans	450,000	450,000
USPP Notes	141,807	–
Finance leases	15,697	19,005
Working capital	21,919	26,929
	629,423	495,934
Facilities utilised at reporting date:		
Bank loans	301,980	278,000
USPP Notes	141,807	–
Finance leases	15,697	19,005
Working capital	–	–
	459,484	297,005
Facilities not utilised or established at reporting date:		
Bank loans	148,020	172,000
USPP Notes	–	–
Finance leases	–	–
Working capital	21,919	26,929
	169,939	198,929

26 PROVISIONS

	Consolidated	
	2012 $'000	2011 $'000
Current		
Employee benefits:		
– annual leave	3,404	3,272
– long service leave	447	369
– other	115	113
Salvage	–	1,363
	3,966	5,117
Non-current		
Employee benefits – long service leave	1,044	868

Salvage provision

The provision relates to the cost of salvaging equipment damaged whilst being demobilised from a customer's site in Indonesia during the previous financial year (refer note 7).

Defined contribution superannuation funds

The Group makes contributions to defined contribution superannuation funds. The expense recognised for the year was $4,879,000 (2011: $3,130,000). During this period there was a one-off expense totalling $1.2 million (post tax) which relates to unpaid employee superannuation from prior years arising from a payroll system error identified during an internal payroll systems review which has now been rectified.

27 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)).

No former or current Executive Directors had outstanding options in the Company at year end. The last options were issued on 4 August 2006 and have expired on 4 August 2011 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.

27 SHARE-BASED PAYMENTS (CONTINUED)

Long term incentive plan

Grant date / employees entitled	Number of Instruments	Vesting conditions	Contractual life of performance shares/rights
Matured in FY11:			
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
Matured in FY12:			
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
Unvested plans:			
Performance shares/rights 2010 (1)	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	3 years
Performance shares/rights 2011 (1)	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	3 years
Performance shares/rights 2012	4,246,661	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	3 years

(1) 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.

The movement of performance shares and performance rights on issue during the year were as follows:

	Number of performance shares/rights 2012	Number of performance shares/rights 2011
Outstanding at 1 July	15,794,934	13,489,267
Forfeited during the period	(798,954)	(4,483,459)
Exercised during the period	(2,272,370)	(26,000)
Granted during the period (1)	4,246,661	6,815,126
Outstanding at 30 June	16,970,271	15,794,934
Exercisable at 30 June	4,955,409	493,795

(1) This includes the 925,926 performance rights granted to Keith Gordon in the 2011 financial year in relation to the performance rights for 2010.

27 SHARE-BASED PAYMENTS (CONTINUED)

Executive option plan

Grant date / employees entitled	Number of Instruments	Vesting conditions	Contractual life 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
	6,400,000		

The number of outstanding share options are as follows:

	Number of options 2012	Number of options 2011
Outstanding at 1 July	2,133,333	2,133,333
Forfeited during the period	(2,133,333)	–
Exercised during the period	–	–
Granted during the period	–	–
Outstanding at 30 June	–	2,133,333
Exercisable at 30 June	–	2,133,333

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
	5,810,000		

The number of MISPs are as follows:

	Number of MISP 2012	Number of MISP 2011
Outstanding at 1 July	2,160,000	3,190,000
Forfeited during the period	(375,000)	(26,250)
Exercised during the period	(185,000)	(1,003,750)
Granted during the period	–	–
Outstanding at 30 June	1,600,000	2,160,000
Exercisable at 30 June (1)	1,040,000	1,600,000

(1) While satisfying the service requirements under the MISP, the shares are not considered exercisable until the full vesting period has been satisfied.

27 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
ESOP 2012	28,898	Service requirement. Full vesting entitlement after 1 year after the end of the calendar year in which they are acquired.	1 year
	55,874		

The number of ESOPs are as follows:

	Number of ESOP 2012	Number of ESOP 2011
Outstanding at 1 July	23,752	–
Forfeited during the period	(2,120)	(3,224)
Exercised during the period	(6,315)	–
Granted during the period	28,898	26,976
Outstanding at 30 June	44,215	23,752
Exercisable at 30 June (1)	–	–

(1) The shares are not considered exercisable until the full vesting period has been satisfied.

The fair value of services received in return for the performance shares and rights granted 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:

Fair value of performance shares/rights	Key management personnel		Senior employees		ESOP (1)	
	2012	2011	2012	2011	2012	2011
Fair value at grant date	$0.76	$0.56	$0.76	$0.56	$0.86-$1.16	$0.96-$1.20
Share price	$0.98	$0.78	$0.98	$0.78	$0.86-$1.16	$0.96-$1.20
Exercise price	$Nil	$Nil	$Nil	$Nil	$Nil	$Nil
Expected volatility (weighted average volatility)	40%-60%	40%-60%	40%-60%	40%-60%	n/a	n/a
Maturity (expected weighted average life)	3 years	3 years	3 years	3 years	1 year	1 year
Expected dividends	4.8%	4.8%	4.8%	4.8%	n/a	n/a
Risk-free interest rate (based on government bonds)	3.8%	4.5%	3.8%	4.5%	n/a	n/a

(1) The ESOP was established in November 2010.

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

27 SHARE-BASED PAYMENTS (CONTINUED)

Modification of long term incentive plan (CONTINUED)

For the Group's key management personnel commencing with the FY13 grant and all subsequent grants of LTI securities the following applies:

Dividends:

- dividends (or shadow dividends) will not be paid on unvested LTI securities;
- dividends (or shadow dividends) will accrue on unvested LTI securities and will only be paid at the time of vesting on those LTI securities that vest, provided all vesting conditions are met; and

Absolute change in control:

- the proportion of vesting LTI securities will be pro-rated to reflect the performance achieved;
- the proportion of vesting LTI securities will be in accordance with the relevant TSR vesting schedule for each grant; and
- the Board retains the discretion to vest a greater amount.

Employee expenses

	Consolidated	
In AUD	**2012**	**2011**
Performance shares/rights	2,492,552	1,954,633
MISP	(29,517)	8,400
ESOP	25,153	25,942
Total expense recognised as employee costs [1]	2,488,188	1,988,975

(1) 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.

28 COMMITMENTS

(a) Operating lease commitments

	Consolidated	
	2012 $'000	**2011 $'000**
Future non-cancellable operating leases not provided for in the financial statements and payable:		
Less than one year	3,981	2,914
Between one and five years	5,682	5,936
More than five years	2,991	4,525
	12,654	13,375

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 2012 an amount of $4,091,000 was recognised as an expense in profit or loss in respect of operating leases (2011: $5,265,000).

(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 $77,107,000 (2011: $147,637,000) payable within one year.

29 CONTINGENT LIABILITIES

The Company's Indonesian subsidiary, PT Prima Traktor IndoNusa (PTI), is defending an action brought by a customer PT Kideco JayaAgung (Kideco). The claim relates to consequential losses which Kideco alleges arose from a disruption of port operations associated with the demobilisation of Emeco equipment by an independent third party. This claim is viewed as a counter-claim to Emeco's initial debtor recovery claim against Kideco for US$1.95 million. PTI does not admit liability in respect of Kideco's claim and the Company considers it is without merit. Accordingly, PTI is defending the action. Consistent with its view that Kideco's claim lacks merit, the Company does not expect the outcome of the action to have a material effect on the Group's financial position. However, if defence against the action is unsuccessful, then loss and damages could potentially amount up to US$22.3 million, which is the amount of the counter-claim by Kideco.

Guarantees

The Group has guaranteed the repayments of $122,500 (2011: $342,500) in relation to office premises with varying expiry dates out to 30 June 2013.

30 CONTINGENT ASSETS (DE-RECOGNITION)

At 30 June 2011, the Company was of the view that it was entitled to a tax deduction of $17,063,000 and a refund of $5,119,000 based on a change in legislation to the deductibility of contract intangibles. During FY12, the legislation has been amended again, and it is now unlikely that the deduction will be available to the Company.

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:-

		Consolidated	
	Note	2012 $'000	2011 $'000
Cash assets	17	73,091	5,502

(ii) Reconciliation of net profit to net cash provided by operating activities

		Consolidated	
	Note	2012 $'000	2011 $'000
Net profit		69,745	49,609
Add/(less) items classified as investing/financing activities:			
Net profit on sale of non-current assets		(3,723)	(2,598)
Loss on sale of discontinued operations	14	–	424
Add/(less) non-cash items:			
Amortisation		217	258
Depreciation		135,611	124,664
Amortisation of borrowing costs	8	1,180	2,066
(Gain)/loss on fair value hedge	8	3	(392)
Unrealised foreign exchange (gain)/loss		416	80
Impairment losses on property, plant & equipment		785	4,955
Write down on inventory		1,277	841
Cost of sales equipment on rent		1,478	1,579
Bad debts		11,083	–
Provision for doubtful debts		(10,348)	5,833
FCTR of discontinued operations disposed		156	(420)
Restructure provisions recognised/(reversed)		–	(671)
Other non-cash items		342	(429)
Equity settled share based payments		2,488	(1,989)
(Decrease)/increase in income taxes payable		7,310	1,370
(Decrease)/increase in deferred taxes		7,053	2,867
Net cash provided by operating activities before change in assets/ (liabilities) adjusted for assets and (liabilities) acquired		225,073	188,047
(Increase)/decrease in trade and other receivables		(21,980)	2,483
(Increase)/decrease in inventories		13,456	34,990
Increase/(decrease) in payables		13,784	(9,898)
Increase/(decrease) in provisions		134	(691)
Net cash provided by operating activities		230,467	214,931

32 CONTROLLED ENTITIES

(a) Particulars in relation to controlled entities

	Note	Country of Incorporation	Ownership Interest 2012 %	Ownership Interest 2011 %
Parent entity				
Emeco Holdings Limited				
Controlled entities				
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
Enduro SPA	(vii)	Chile	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. This was classified as a discontinued operation in 2010 but was reclassified as a continuing operation at 30 June 2012.
(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.
(vii) Enduro SPA was incorporated on 24 February 2012 and carries on business in Chile.
(*) Discontinued operations at 30 June 2012, 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
E L Smyth (appointed 15 December 2011)

Executive Director

K D Gordon (Managing Director)

Executives

S G Gobby (Chief Financial Officer)
M A Turner (General Manager Global Asset Management)
M R Kirkpatrick (General Manager Corporate Services)
A G Halls (General Manager Australian Rental)
I M Testrow (President Emeco Americas)
C Mossman (President Director Indonesia)
H A Christie-Johnston (General Manager Australian Sales & Parts) ceased employment 26 November 2011
D O Tilbrook (General Manager South East Asia) ceased employment 7 October 2011

33 KEY MANAGEMENT PERSONNEL DISCLOSURE (CONTINUED)

Key management personnel compensation

The key management personnel compensation is as follows:

	Consolidated	
In AUD	**2012**	**2011**
Short-term employee benefits	5,491,243	6,337,256
Other long term benefits	–	–
Post-employment benefits	214,966	244,774
Termination benefits	26,182	212,500
Equity compensation benefits	1,534,671	1,386,534
	7,267,062	8,181,064

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 36 to 48.

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.*

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. The disclosure table has been adjusted to transfer vested shares to the key management personnel's equity holdings. The prior year comparatives have been restated to reflect this change.

2012 Shares	Held at 1 July 2011	Granted as compensation	Vested during the year	Forfeited/ lapsed	Held at 30 June 2012
Directors & Executives					
Hamish Christie-Johnston	1,261,408	413	(727,849)	(533,972)	n/a
Stephen Gobby	1,152,538	322,571	(731,982)	–	743,127
David Tilbrook	1,039,714	–	(812,495)	(227,219)	n/a
Michael Turner	900,785	241,518	(585,586)	–	556,717
Ian Testrow	540,541	–	(540,541)	–	–
Michael Kirkpatrick	700,450	191,579	(450,450)	–	441,579
Anthony Halls	430,218	205,708	(162,162)	–	473,764
Christopher Mossman	171,667	–	(171,667)	–	–
Keith Gordon	1,183,929	907,263	–	–	2,091,192

33 KEY MANAGEMENT PERSONNEL DISCLOSURE (CONTINUED)

2011 Shares	Held at 1 July 2010	Granted as compensation	Vested during the year	Forfeited/ lapsed	Held at 30 June 2011
Directors & Executives					
Hamish Christie-Johnston	995,495	265,913	–	–	1,261,408
Stephen Gobby	881,982	420,556	(78,000)	(72,000)	1,152,538
David Tilbrook	784,685	355,029	(52,000)	(48,000)	1,039,714
Michael Turner	685,586	315,199	(52,000)	(48,000)	900,785
Ian Testrow (1)	940,541	–	(352,000)	(48,000)	540,541
Michael Kirkpatrick	650,450	250,000	(176,000)	(24,000)	700,450
Anthony Halls	162,162	268,056	–	–	430,218
Christopher Mossman (2)	n/a	n/a	n/a	n/a	171,667
Guido Gadomsky	–	232,710	–	(232,710)	n/a
Keith Gordon	–	1,183,929	–	–	1,183,929

Dividends paid under the Management Incentive Share Plan are paid against the employees outstanding loan and is reflected in issued capital.

(1) Included in this balance of equity instruments Mr Testrow held 300,000 MISP shares at 30 June 2011. These shares vested during FY12.
(2) 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.
n/a Not applicable as not in a position of key management personnel at time of compilation.

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.

2012 Rights	Held at 1 July 2011	Granted as compensation	Vested during the Year	Forfeited/ lapsed	Held at 30 June 2012
Directors & Executives					
Hamish Christie-Johnston	203,704	–	(146,273)	(57,431)	n/a
Stephen Gobby	300,926	–	–	–	300,926
David Tilbrook	281,481	–	(189,437)	(92,044)	n/a
Michael Turner	240,741	–	–	–	240,741
Ian Testrow	508,470	189,000	–	–	697,470
Michael Kirkpatrick	185,185	–	–	–	185,185
Anthony Halls	166,667	–	–	–	166,667
Christopher Mossman	177,586	192,093	–	–	369,679
Keith Gordon	925,926	–	–	–	925,926

2011 Rights	Held at 1 July 2010	Granted as compensation	Vested during the Year	Forfeited/ lapsed	Held at 30 June 2011
Directors & Executives					
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 (1)	n/a	n/a	–	–	177,586
Keith Gordon (2)	–	925,926	–	–	925,926

(1) Mr Mossman became a key management personnel on 11 March 2011.
(2) 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:

2012	Held at 1 July 2011	Granted as compensa-tion	Exercised	Options Forfeited	Other Changes	Held at 30 June 2012(1)	Vested during the year	Vested and exercisable at 30 June 2012
Directors & Executives								
L C Freedman	1,600,000	–	–	(1,600,000)	–	–	–	–
R L C Adair	533,334	–	–	(533,334)	–	–	–	–

2011	Held at 1 July 2010	Granted as compensa-tion	Exercised	Options Forfeited	Other Changes	Held at 30 June 2011 (1)	Vested during the year	Vested and exercisable at 30 June 2011
Directors & Executives								
L C Freedman	1,600,000	–	–	–	–	1,600,000	–	1,600,000
R L C Adair	533,334	–	–	–	–	533,334	–	533,333

(1) The options issued to Mr Freedman and Mr Adair expired 5 years after their date of issue on 4 August 2011.

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, are as follows. The disclosure table has been adjusted to include the transfer of vested shares from the employee share plans to the equity holdings of the members of key management personnel. The prior year comparatives have been restated to reflect this change.

2012	Held at 1 July 2011 Ordinary Shares	Transferred from Share Plan	Purchases	Sales	Held at 30 June 2012 Ordinary Shares
Directors					
K D Gordon	650,000	–	–	–	650,000
A N Brennan	1,581,700	–	–	–	1,581,700
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
E L Smyth	–	–	–	–	–
Executives					
D O Tilbrook	3,352,000	812,495	n/a	n/a	n/a
M A Turner	3,056,578	585,586	4,987	(460,000)	3,187,151
S G Gobby	465,578	731,982	4,987	(1,001,000)	201,547
I M Testrow	352,000	540,541	–	–	892,541
H A Christie-Johnston	92,067	727,849	n/a	n/a	n/a
M R Kirkpatrick	–	450,450	–	(450,450)	–
A G Halls	24,668	162,162	4,987	(20,000)	171,817
C Mossman	12,500	171,667	–	–	184,167

n/a Not applicable as not in a position of key management personnel at time of compilation.

33 KEY MANAGEMENT PERSONNEL DISCLOSURE (CONTINUED)

2011	Held at 1 July 2010 Ordinary Shares	Transferred from Share Plan	Purchases	Sales	Held at 30 June 2011 Ordinary Shares
Directors					
K D Gordon	650,000	–	–	–	650,000
A N Brennan	1,581,700	–	–	–	1,581,700
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
Executives					
D O Tilbrook	3,300,000	52,000	–	–	3,352,000
M A Turner	5,500,000	52,000	4,578	(2,500,000)	3,056,578
S G Gobby	470,000	78,000	4,578	(87,000)	465,578
I M Testrow	–	352,000	–	–	352,000
H A Christie-Johnston	337,399	–	4,578	(250,000)	91,977
M R Kirkpatrick	63,000	176,000	–	(239,000)	–
A G Halls	35,773	–	4,578	(15,773)	24,578
C Mossman	n/a	–	–	–	12,500

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.

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:

			Transaction value year ended 30 June		Balance outstanding as at 30 June	
			2012	2011	2012	2011
		Note	$'000	$'000	$'000	$'000
Key management person and their related parties	**Transaction**					
Mr P Richards – Kangaroo Resources Limited	Rental of heavy earthmoving equipment	(1)	4,408	3,971	947	1,133
Total current assets			4,408	3,971	947	1,133
Mr M A Turner Mr D O Tilbrook – Ivy Street Unit Trust	Rental of 510 Great Eastern Highway	(2)	–	37	–	–
Total current liabilities			–	37	–	–

(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 revenue of A$4,408,000 (inclusive of VAT) translated at an AUD/USD average exchange rate of 1.0319 for FY12 (2011: 0.9872). The balance outstanding as at 30 June 2012 was A$947,238 (2011: A$1,132,832) translated at the 30 June 2012 AUD/USD rate of 1.0172 (2011: 1.0724). The Group also holds a bank guarantee and deposit of A$790,232 and A$80,314 respectively from Kangaroo Resources Limited as security against outstanding amounts. The rental contract was negotiated on an arm's 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 $Nil (2011: $37,810). The price was negotiated on an arm's 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 arm's length mark up.

Ultimate parent entity

Emeco Holdings Limited is the ultimate parent entity of the Group.

35 SUBSEQUENT EVENTS

Subsequent to 30 June 2012 the Company declared a 3.5 cent fully franked dividend payable 28 September 2012.

On 20 August 2012, the Board approved an on-market buyback up to a maximum of 5% (31,561,879) of the Company's shares over the next 12 months. In accordance with the ASX listing rules, the prices paid for the shares purchased under the buy-back will be no more than 5% above the volume weighted average price of the EHL shares over the 5 prior trading days.

36 EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2012 was based on the profit/(loss) attributable to ordinary shareholders of $69,745,000 (2011: $49,609,000) and a weighted average number of ordinary shares outstanding less any treasury shares for the year ended 30 June 2012 of 609,182,029 (2011: 612,938,470).

Profit attributed to ordinary shareholders

	Consolidated					
	2012			2011		
	Continuing operations $'000	Discontinued operations $'000	Total $'000	Continuing operations $'000	Discontinued operations $'000	Total $'000
Profit/(loss) for the period	69,972	(227)	69,745	49,974	(365)	49,609

Weighted average number of ordinary shares

	Consolidated	
	2012 '000	2011 '000
Issued ordinary shares at 1 July	631,238	631,238
Effect of purchased treasury shares	(22,056)	(18,300)
Weighted average number of ordinary shares at 30 June	609,182	612,938

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2012 was based on profit attributable to ordinary shareholders of $69,745,000 (2011: $49,609,000) and a weighted average number of ordinary shares outstanding less any treasury shares during the financial year ended 30 June 2012 of 624,198,215 (2011: 630,580,189).

Profit attributed to ordinary shareholders (diluted)

	Consolidated					
	2012			2011		
	Continuing operations $'000	Discontinued operations $'000	Total $'000	Continuing operations $'000	Discontinued operations $'000	Total $'000
Profit/(loss) attributed to ordinary shareholders (basic)	69,972	(227)	69,745	49,974	(365)	49,609

36 EARNINGS PER SHARE (CONTINUED)

Weighted average number of ordinary shares (diluted)

	Consolidated	
	2012 '000	2011 '000
Weighted average number of ordinary shares at 30 June	631,238	631,238
Effect of the vesting of contingently issuable shares	15,016	17,642
Effect of purchased treasury shares	(22,056)	(18,300)
Weighted average number of ordinary shares (diluted) at 30 June	624,198	630,580

Comparative information

The average market value of the Company's shares for the purpose of calculating the dilutive effect of ordinary share was based on quoted market prices for the period during which the shares were outstanding.

37 PARENT ENTITY DISCLOSURE

As at and throughout the financial year ending 30 June 2012 the parent entity (the "Company") of the Group was Emeco Holdings Limited.

	Company	
	2012 $'000	2011 $'000
Result of the parent entity		
Profit/(Loss) for the period	44,654	118,509
Other comprehensive income	–	–
Total comprehensive income for the period	–	–
Financial position of parent entity at year end		
Current assets	22	153
Non-current assets	710,376	614,821
Total assets	710,398	614,974
Current liabilities	15,627	5,922
Total liabilities	15,627	5,922
Total equity of the parent entity comprising of:		
Share capital	610,424	610,304
Share based payment reserve	9,155	6,462
Reserve for own shares	(13,757)	(10,715)
Retained earnings	12,840	3,001
Total equity	618,662	609,052

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 2012 is set out as follows:

Statement of comprehensive income and retained earnings

	Consolidated	
	2012 $'000	**2011 $'000**
Revenue	455,183	406,762
Cost of sales	(289,730)	(270,865)
Gross profit	165,453	135,897
Operating expense	(64,455)	(52,434)
Finance income	2,522	928
Finance costs	(18,727)	(18,713)
Profit before tax	84,793	65,678
Tax expense	(25,861)	(19,043)
Net profit after tax	58,932	46,635
Other comprehensive income	546	363
Total comprehensive income for the period	546	363
Retained earnings at beginning of year	83,165	92,978
Dividends recognised during the year	(34,718)	(56,811)
Retained earnings at end of year	107,925	83,165
Attributable to:		
Equity holders of the Company	107,925	83,165
Profit/(Loss) for the period	58,932	46,635

38 DEED OF CROSS GUARANTEE (CONTINUED)

Statement of financial position

	Consolidated	
	2012 $'000	2011 $'000
Current assets		
Cash assets	69,483	2,703
Trade and other receivables	60,826	62,950
Inventories	32,926	45,242
Assets held for sale	405	8,728
Total current assets	163,640	119,623
Non-current assets		
Trade and other receivables	62,335	22,686
Intangible assets	151,622	151,728
Investments	158,388	156,861
Property, plant and equipment	497,687	482,647
Total non-current assets	870,032	813,922
Total assets	1,033,672	933,545
Current liabilities		
Trade and other payables	36,296	43,088
Interest bearing liabilities	3,339	3,107
Current tax liabilities	15,627	6,013
Provisions	3,158	3,514
Liabilities held for sale	–	–
Total current liabilities	58,420	55,722
Non-current liabilities		
Interest bearing liabilities	248,106	178,012
Deferred tax liabilities	15,970	13,786
Provisions	1,478	861
Total non-current liabilities	265,554	192,659
Total liabilities	323,974	248,381
Net assets	709,698	685,164
Equity		
Issued capital	610,424	610,304
Share based payment reserve	9,155	6,462
Reserves	(17,806)	(14,767)
Retained earnings	107,925	83,165
Total equity attributable to equity holders of the parent	709,698	685,164

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 51 to 105, and Remuneration report in the Directors' report, set out on pages 36 to 48 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 2012 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 2012.
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, 20th day of August 2012

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 statement of financial position as at 30 June 2012, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the director's declaration of the Company and the Group comprising the Company and 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 judgment, 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.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

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 Emeco Holdings Limited 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 2012 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 2012. 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 2012 complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

R Gambitta
Partner

Perth

20 August 2012

Financial Calendar

The Annual General Meeting of Emeco Holdings Limited will be held at the Crown Perth (formerly Burswood Entertainment Complex), Great Eastern Highway, Burswood, Western Australia on Tuesday 20 November 2012 commencing at 12:00 noon (Perth time).

Event	Date*
Ex dividend share trading commences	28-Aug-12
Record date for final dividend	3-Sep-12
Final dividend payable	28-Sep-12
Annual General Meeting	20-Nov-12
Half year	31-Dec-12
Half year profit announcement	Feb-13
Ex dividend share trading commences	Mar-13
Record date for interim dividend	Mar-13
Interim dividend payable	Mar-13
Year end	30-Jun-13

*Timing of events and payment of dividend is subject to change and Board discretion

Substantial Shareholders

Details regarding substantial holders of the Company's ordinary shares as at 10 September 2012, as disclosed in the substantial holding notices, are as follows:

Name	Shares	% Issued Capital
Franklin Resources, Inc. and its affiliates	51,483,699	8.16%
AMP Limited	40,336,868	6.39%
BlackRock Investment Management (Australia) Limited	38,001,162	6.02%
Dimensional Fund Advisors	31,765,018	5.03%
Vinva Investment Management	31,653,629	5.01%

Distribution of Shareholders

As at 10 September 2012, there were 6,779 holders of the Company's ordinary shares. The distribution as at 10 September 2012 was as follows:

Range	Investors	Securities	% Issued Capital
100,001 and Over	160	557,613,674	88.34
50,001 to 100,000	202	14,373,371	2.28
10,001 to 50,000	1,868	40,888,637	6.48
5,001 to 10,000	1,477	11,345,024	1.80
1,001 to 5,000	2,169	6,506,642	1.03
1 to 1,000	903	510,238	0.08
Total	6,779	631,237,586	100.00

The number of security investors holding less than a marketable parcel of 694 securities ($0.72 on 10/09/2012) is 579 and they hold 202,927 securities.

20 Largest Shareholders

The names of the 20 largest holders of the Company's ordinary shares as at 10 September 2012 are:

Rank	Name	Total Units	% Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	131,325,880	20.86%
2	NATIONAL NOMINEES LIMITED	115,516,828	18.35%
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	86,687,653	13.77%
4	JP MORGAN NOMINEES AUSTRALIA LIMITED	38,671,313	6.14%
5	CITICORP NOMINEES PTY LIMITED	30,662,585	4.87%
6	BNP PARIBAS NOMS PTY LTD	20,987,294	3.33%
7	PACIFIC CUSTODIANS PTY LIMITED	15,457,798	2.46%
8	AMP LIFE LIMITED	15,374,006	2.44%
9	UCA GROWTH FUND LIMITED	9,000,000	1.43%
10	ELPHINSTONE HOLDINGS PTY LTD	6,860,000	1.09%
11	BNP PARIBAS NOMS PTY LTD	6,773,791	1.08%
12	CITICORP NOMINEES PTY LIMITED	6,052,957	0.96%
13	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	3,897,038	0.62%
14	CAROLINA CORPORATION PTY LTD	3,888,932	0.62%
15	G HARVEY NOMINEES PTY LIMITED	3,661,800	0.58%
16	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	3,602,039	0.57%
17	QIC LIMITED	3,324,545	0.53%
18	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,183,049	0.51%
19	MR TREVOR THOMAS SAUVARIN	3,000,000	0.48%
19	LINDA DOROTHY SAUVARIN	3,000,000	0.48%
20	GOLDKING ENTERPRISES PTY LTD	2,679,519	0.43%

Voting Rights of Ordinary Shares

Voting rights of shareholders are governed by the Company's constitution. The Constitution provides that on a show of hands every member present in person or by proxy has one vote and on a poll every member present in person or by proxy has one vote for each fully paid ordinary share held by the member.

Closing share price ($)

COMPANY DIRECTORY

DIRECTORS

Robert Bishop
Alec Brennan
John Cahill
Keith Gordon
Peter Johnston
Peter Richards
Erica Smyth

SECRETARY

Michael Kirkpatrick

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SECURITIES EXCHANGE LISTING

Emeco Holdings Ltd ordinary shares are listed on the Australian Securities Exchange Ltd.
ASX code: EHL

Emeco's experienced teams are industry leaders in providing mining companies with tailored fleets of best-in-class equipment to the go line to support their onsite production needs.

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