Emeco Holdings Limited and its Controlled Entities

ABN 89 112 188 815

Annual Financial Report

30 June 2018

Contents

Chairman's Report

Dear Shareholder,

I am pleased to present the Emeco Holdings Limited Annual Report for the 2018 financial year (**FY18**).

Safety and sustainability

Emeco continues to maintain its commitment to our people, the environment and the communities in which we operate. Emeco's most valued assets are our people and their safety is at the forefront of all decisions across the business. Our continued improving safety performance demonstrates this commitment to our staff and customers.

Overall, we continue to improve our safety record notwithstanding the significant increase in the number of employees and operations through increased activity and the acquisition of Force in November 2017. We continue to strive to create industry best safety practices and eliminate harm.

For more information on our sustainability performance and policies, please refer to Emeco's FY18 Sustainability Report available on our website.

Return to profitability

In FY18, Emeco's focus has been on executing our growth strategy and driving operational efficiencies, whilst continuing to strengthen the balance sheet.

In addition to realising the full year benefits of the merger with Andy's Earthmovers and Orionstone in FY18, Emeco acquired Force and announced an agreement to acquire Matilda Equipment (which completed shortly after year-end). As well as these acquisitions, Emeco's ongoing business improvement initiatives ensured it maintained strong discipline in operating costs and capital expenditures.

As a result, I am pleased Emeco will be reporting a return to profitability in FY18, with positive operating NPAT for the first time since FY13.

Continued focus on cash flow and deleveraging

In FY18, Emeco generated operating cash flow of $178.2 million and ended the year with net debt / pro forma run rate operating EBITDA of 2.0x[1] (down from 3.9x[2] in FY17). This places the business in a strong position to renew the fleet as required, take advantage of growth opportunities in the market and refinance our debt on terms that are more attractive.

I would like to take this opportunity to thank our shareholders for their overwhelming continued support of Emeco with the acquisitions of Force and Matilda. I would also like to thank management and all our employees for their efforts in returning the company to profitability. This continued support is critical to Emeco's short and long-term success.

Peter Richards
Chairman

[1] FY18 net debt / annualised 4Q18 operating EBITDA plus annualised Matilda 3Q18 operating EBITDA.
[2] FY17 net debt / annualised 4Q17 operating EBITDA.

Managing Director's Report

Dear Shareholder,

During FY18, Emeco continued to execute on our strategy to become the highest quality and lowest cost provider of equipment rental solutions. I am pleased to report that our focus on serving our customers and the hard work of our team has resulted in a return to positive operating NPAT for the first time since FY13.

Significant increase in the Australian fleet's scale and enhanced workshop capabilities

In line with our strategy, Emeco has recently made two significant acquisitions. In November 2017, Emeco acquired Force Equipment Pty Ltd (**Force**). The Force acquisition significantly increased Emeco's scale by providing Emeco with 179 high quality, low hour machines to complement the Emeco fleet.

With four strategically located workshops around Australia, Force's retail maintenance business also allowed Emeco to widen our customer offering and providing a new source of low capital intensity earnings. In addition to this, the Force maintenance capability also provides Emeco with in-house major component rebuild capabilities, allowing us to reduce our reliance on external service providers and mitigate Emeco's risk of critical component supply disruption in a tight market. Since the acquisition of Force, Emeco has been able to utilise these workshops to realise material cost and capex savings.

On 30 April 2018, Emeco also announced an agreement to acquire Matilda Equipment Holdings Pty Ltd (**Matilda**), a national equipment rental business. Matilda specialises in individual high margin rentals of high demand, late model ancillary equipment, also providing Emeco with a channel to sustain our ongoing capex requirements for such assets. This acquisition completed in early FY19 on 2 July 2018.

Operational initiatives

During FY18, Emeco has continued to improve our systems and processes to maintain operational excellence and cost discipline. This has included a focus on enhanced centralised support to the regions, including centralising planning of our component change outs, standardising processes across regions and using technology to drive best practice asset management, particularly given the potential for cost pressures in a tightening market.

Emeco's group operating utilisation at the end of FY18 was 62%, representing a significant improvement compared with 56% at the beginning of the reporting period. There remains capacity to work our fleet harder to drive returns through the cycle. The teams continue to increase operating utilisation and rental rates at every opportunity, and we have had new project wins and existing project scope expansions leading into FY19.

Emeco is a leading employer with ~500 employees across Australia, including ~320 skilled tradespeople and ~20 apprentices. We remain focused on developing our permanent employee workforce rather than relying on subcontractors. Through centralisation initiatives, the objective is to increase labour productivity and efficiencies in a tightening market in order to control costs.

We continue to focus on safety and a key focus in integrating the Force business (and also Matilda going into FY19) is standardising and implementing best safety practices across the business. I am proud that Emeco achieved a 45% reduction in its total recordable injury frequency rate over FY18 (down from 2.2 to 1.2).

Emeco wound down our exposure in Chile at the end of FY17 and disposed of the Canadian business in April 2018, allowing management to focus on the expanding Australian operations.

Financial performance

I am pleased to report a return to profitability for the first time since FY13, with operating NPAT for the year of $20.1 million. Emeco generated operating EBIT of $83.2 million (up 593% on FY17) and EBITDA of $153.0 million (up 83% on FY17), from operating revenue of $381.0 million (up 64% on FY17). Operating EBITDA margin was up 440bps to 40.2%, driven by our increased scale and continued cost reduction initiatives.

This has resulted in strong operating cash flow generation in FY18, giving Emeco the flexibility to invest in our fleet and the business to promote further growth.

The strong operating cash flow performance, together with the equity raising to fund the acquisition of Force, has driven down Emeco's net debt / pro forma run rate operating EBITDA to 2.0x[3] at the end of FY18 (from 3.9x[4] in FY17). This is in line with Emeco's aggressive deleveraging strategy in order to position us to refinance the notes on more favourable terms.

Outlook for FY19

The Company expects to see additional growth in revenue and earnings in FY19, driven by further increases in utilisation and rates, additional retail maintenance services, a full year contribution from Force and the completion of the acquisition of Matilda.

I would like to thank the Emeco team for all of their continued hard work throughout the last 12 months, and thank our shareholders for their continued support especially through the recent capital raisings.

Ian Testrow
Managing Director & Chief Executive Officer

[3] FY18 net debt / annualised 4Q18 operating EBITDA plus annualised Matilda 3Q18 operating EBITDA.
[4] FY17 net debt / annualised 4Q17 operating EBITDA.

Operating and Financial Review

The Emeco Group supplies safe, reliable and maintained equipment rental solutions to the earthmoving industry. The Group also supplies external maintenance and component rebuild services for earthmoving equipment and offers EOS, an equipment productivity and management tool, to its customers. Established in 1972, the business listed on the ASX in July 2006 and is headquartered in Perth, Western Australia.

Emeco generates earnings from the provision of equipment rental and maintenance solutions to the earthmoving industry. Operating costs principally comprise parts, labour and tooling associated with maintaining earthmoving equipment. Capital expenditure principally comprises the purchase of equipment and replacement of major components over the asset's life cycle while owned by Emeco.

Chart 1: Revenue by region

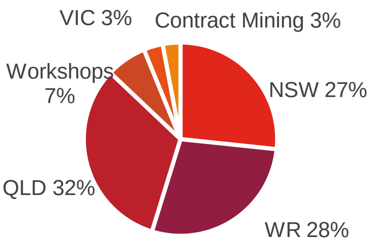


Chart 2: Revenue by commodity

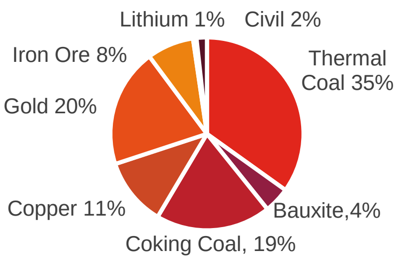
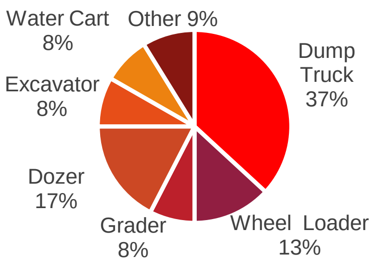


Chart 3: Fleet composition by number of assets



Note: Above analysis relates to 12 month period ended 30 June 2018 and excludes discontinued operations.

Table 1: Group financial results

	Operating results[1,2,3]		Statutory results	
A$ millions	**2018**	**2017**	**2018**	**2017**
Revenue	381.0	233.0	381.0	196.0
EBITDA[4]	153.0	83.5	130.7	51.9
EBIT[4]	83.2	12.0	49.7	(85.8)
NPAT[4]	20.1	(90.9)	5.3	(157.2)
ROC[4] %	19.6%	3.3%	11.7%	(22.6)%
EBIT margin	21.8%	5.2%	13.0%	(43.8)%
EBITDA margin	40.2%	35.8%	34.3%	26.5%

Note:
1. Significant items have been excluded from the statutory result to aid the comparability and usefulness of the financial information. This adjusted information (operating results) enables users to better understand the underlying financial performance of the business in the current period.
2. Operating results include the Canada discontinued operations but exclude the Chile discontinued operations for FY18. Operating results include the Canada and Chile discontinued operations in FY17.
3. Operating results are non-IFRS.
4. EBITDA: Earnings before interest, tax, depreciation and amortisation; EBIT: Earnings before interest and tax; NPAT: Net profit after tax; ROC: Return on capital (EBIT / Average capital employed).

Table 2: 2018 operating results to statutory results reconciliation

A$ millions	Statutory	Tangible asset impairments	Redundancy and restructuring costs	Long-term incentive program	Acquisition costs	Canada	Tax Effect	Operating
EBITDA	130.7	-	4.0	10.8	3.8	3.7	-	153.0
EBIT	49.7	11.2	4.0	10.8	3.8	3.7	-	83.2
NPAT	5.3	11.2	4.0	10.8	3.8	3.7	(18.7)	20.1

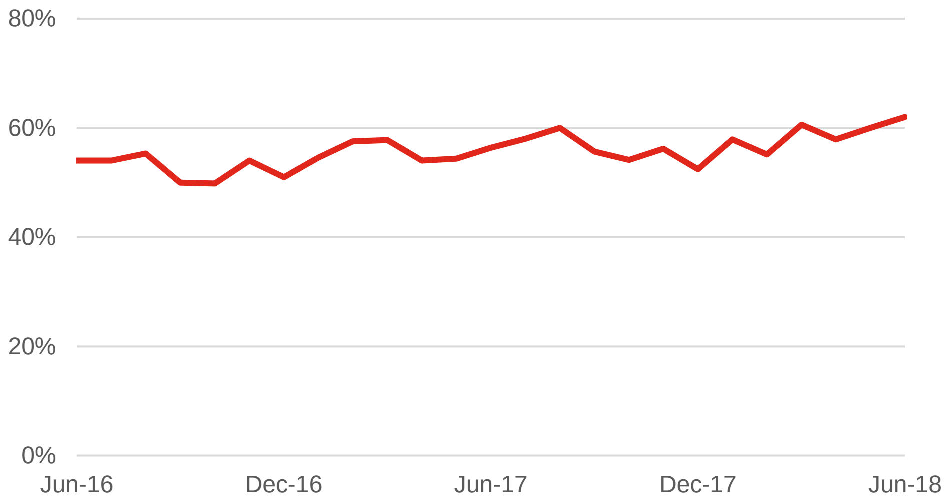
Reconciliation of differences between operating and statutory results:

1. FY18 operating results (non-IFRS) excludes the following:
   - **Tangible asset impairments:** During FY18 net impairments totalling $11.2 million were recognised across the business on assets held for sale and subsequently disposed during the period.
   - **Redundancy and restructuring costs:** One off costs related to redundancy and restructuring totalled $4.0 million before tax.
   - **Long-term incentive program:** During FY19 Emeco recognised $10.8 million of non-cash expenses relating to the employee long-term incentive plan.
   - **Acquisition costs:** During FY18 Emeco incurred costs totalling $1.9 million in relation to the acquisition of Force Equipment Pty Ltd and $1.9 million in relation to the acquisition of Matilda Equipment Holdings Pty Ltd and its subsidiary.
   - **Canada** The Canadian business was disposed in April 2018. The operating results of this business have been included for the period under control of the Company.
   - **Tax Effect** The Company recognised a tax benefit of $18.7 million in relation to the recognition of a deferred tax asset during the period that had been derecognised in prior periods.
2. Refer to the 2017 Annual Report for reconciliation of differences between FY17 operating and statutory results.
3. All reconciling items relating to FY18 operating results are discussed in further detail later in the operating and financial review.

STRONG OPERATING UTILISATION LEADING INTO FY19

Group operating utilisation increased over FY18 to end the period at 62% compared to 56% at June 2017. The size of the fleet also significantly increased over the period. Management is focused on increasing the operating utilisation of machines currently on rent and looking for opportunities to redeploy underutilised fleet to generate greater returns.

Chart 4: 2018 Average Australia Operating Utilisation



Note: 1. Operating utilisation defined as ratio of operating hours recognised over a month, compared to 400 hours a month.

Group operating revenue from continuing operations increased to $381.0 million in FY18 (FY17: $233.0 million). Rental revenue increased to $324.0 million (FY17: $208.8 million) as a result of the acquisition of Force Equipment (**Force**) in November 2017, increased operating utilisation of the rental fleet and improvements in rental rates on new and renewed contracts. Maintenance services revenue increased 150.9% to $55.2 million (FY17: $22.0 million) primarily due to the addition of the external maintenance capability acquired in the Force acquisition.

Operating EBITDA margins increased to 40.2% (FY17: 35.8%) as a result of increased rental rates achieved across all regions, innovative contract structures with customers and further cost reductions, in addition to the benefit of previous cost control measures and operational efficiencies. The increase in EBITDA margin is especially strong given the lower margin, low capital intensity workshop revenue stream acquired as part of Force. EBIT recovery improved operating return on capital (**ROC**) to 19.6% in FY18 (FY17: 3.3%).

INCREASED UTILISATION AND RENTAL RATES IMPROVE OPERATING EBITDA

Table 3: Operating cost summary (operating results)

A$ millions	2018	2017
Revenue	**381.0**	**233.0**
Operating expenses		
Repairs and maintenance	(104.9)	(60.7)
External maintenance services	(40.0)	(16.2)
Employee expenses	(30.0)	(21.3)
Cartage and fuel	(10.3)	(9.5)
Hired in equipment and labour	(11.8)	(20.3)
Net other expenses	(31.0)	(21.4)
Operating EBITDA	**153.0**	**83.5**
Depreciation expense	(68.9)	(70.6)
Amortisation	(1.0)	(0.8)
Operating EBIT	**83.2**	**12.0**

Operating EBITDA increased to $153.0 million (up $69.5 million or 83.2% on FY17) as a result of recent acquisitions, increased utilisation of the fleet by customers, rental rate increases and cost management measures implemented over FY17 and FY18. Total revenue increased to $381.0 million (up $148.0 million or 63.5% on FY17), partly due to a full year contribution of the Andy's and Orionstone businesses and the acquisition of Force on 30 November 2017.

Repairs and maintenance expense increased to $104.9 million (FY17: $60.7 million) driven by the larger fleet and higher operating utilisation. As a percentage of rental revenue, repairs and maintenance expense increased from 29.1% in FY17 to 32.4%, largely due to catch up maintenance work on the acquired Andy's and Orionstone fleets.

Due to increased scale as well as the addition of the Force maintenance workforce in November 2017, employee expenses increased 40.8% in FY18 to $30.0 million (FY17: $21.3 million). Total headcount has increased from approximately 240 in FY17 to approximately 500 in FY18.

Other expenses increased to $31.0 million (FY17: $21.4 million) predominately due to increased operating overheads associated with growth in the company, namely insurance, property rental costs and employee travel. Costs associated with hired in equipment and labour, predominately equipment operating leases and subcontract labour, declined by 41.8% due to the increased ability to replace this equipment with owned equipment and a concerted effort to replace subcontract labour with full time employees where feasible. Refer to note 8 in the financial statements for further breakdown of other expenses (page 70).

Depreciation expense increased to $68.9 million in FY18 (FY17: $70.6 million) driven by the increased scale of fleet from recent acquisitions and increased utilisation of equipment.

AUSTRALIAN FLEET GROWTH

Table 4: Rental fleet

A$ millions	2018	2017
Rental fleet	399.5	339.6
Non-current assets held for sale	8.0	26.4

The written down value (**WDV**) of the rental fleet increased to $399.5 million in FY18 primarily due to the acquisition of Force, adding an additional $59.2 million. The size of the rental fleet in Australia has increased significantly over the past 18 months as a result of the recent acquisitions and innovative asset swaps to exchange fleets from the international businesses for machines in Australia.

An impairment loss on plant and equipment of $11.1 million was incurred in FY18, down from $18.4 million in FY17 (refer to note 22,) as the business continued to rationalise non-core fleet acquired through the recent acquisitions and dispose of assets approaching the end of their useful life. The impairment of plant and equipment relates to the assets designated as held for sale during the period (refer to note 15).

We continually review our rental fleet, matching fleet mix to rental demand to maximise returns on investment. Idle units identified as having low rental demand, are no longer profitable or approaching end of useful life are transferred to non-current assets held for sale and are actively marketed through Emeco's global network of brokers.

IMPROVED EARNINGS AND CASH CONVERSION

Table 5: Cash flow summary

A$ millions	1H FY18	2H FY18	2018	2017
Operating EBITDA	67.0	86.0	153.0	83.5
Non-Operating EBITDA	(1.4)	(2.6)	(4.0)	(13.9)
Working capital	24.4	4.8	29.2	(32.7)
Income tax cash flows	0.0	0.0	0.0	0.0
Operating free cash flow	**90.0**	**88.2**	**178.2**	**36.9**
Capital expenditure	(38.3)	(42.2)	(80.5)	(31.4)
Disposals	11.7	11.2	22.9	30.9
Net capital expenditure	**(26.6)**	**(31.0)**	**(57.6)**	**(0.5)**
Finance costs	(24.4)	(22.5)	(46.9)	(38.0)
Free cash flow	**39.0**	**34.7**	**73.7**	**(1.6)**

Note: 2018 results include Canada discontinued operation and exclude Chile discontinued operations.

Operating EBITDA increased from $83.5 million in FY17 to $153.0 million in FY18 and, in combination with improved working capital, free cash flow increased by $75.3 million to $73.7 million.

Working capital management improved over in FY18 as the working capital inefficiencies associated with the acquisition of the Andy's and Orionstone businesses was rectified. 1H18 included the receipt of $12.0 million of funds associated with the Chilean asset swap at the end of FY17. The working capital management of the Group was not impacted by the addition of the Force workshop operations and continued to strengthen in 2H18 with reduced debtor days outstanding and beneficial supplier terms.

Net capital expenditure increased by $57.1 million due to the significant increase in the size of the fleet over the last 12 months, increased utilisation and catch up capital component replacement required on machines acquired from Andy's and Orionstone in late FY17. Disposals predominately related to the sale of assets at the end of life in addition to rationalising fleet added through recent business acquisitions that were non-core to the Emeco rental fleet.

STRENGTHENED BALANCE SHEET

Following the successful debt restructuring in FY17 and recapitalisation of the business, the Company has continued to delever the business through increased earnings and the ability to convert these earnings into sustained cash flows.

Table 6: Net debt and gearing summary

A$ millions	**2018**	**2017**
Interest bearing liabilities (current and non-current)		
Notes (USD denominated)[1]	481.6	462.7
Revolving credit facility	0.0	0.0
Lease liabilities	1.2	9.8
Other	1.9	1.6
Cash	171.4	17.0
Net proceeds on hand from equity raising	(87.5)	-
Net debt	**400.8**	**457.1**
Derivative asset / (liability)	(2.2)	(4.4)
Net debt (including hedging instruments)	**403.0**	**461.5**
Leverage ratio	2.6	5.5
Interest cover ratio	3.0	1.5

Note: Above figures based on facilities drawn – bank guarantees are excluded.
Leverage ratio - Net debt : Operating EBITDA
Interest cover ratio - Operating EBITDA : Interest expense
1. Movement is due to the decline in the AUD/USD (June17: 0.7692, June18: 0.7391)

Emeco's adjusted net debt decreased to $400.8 million at 30 June 2018 from $457.1 million at 30 June 2017. As at 30 June 2018, the net amount of US$355.9 million in notes are outstanding. These secured notes mature in March 2022 and a semi-annual coupon of 9.25% is payable in January and July each year. The note terms do not contain maintenance covenants.

The semi-annual coupon relating to US$230.0 million of the US$355.9 million of notes has been hedged to AUD to provide cashflow certainty of interest payments. US$100 million principal of the US$355.9m notes held has been hedged. Due to the movements in the Australian dollar between the inception of the hedge on 31 March 2017 and 30 June 2018, a net hedge liability of $2.2 million has been recognised at June 2018.

At 1 July 2017, Emeco had a A$65 million revolving credit facility (**RCF**) consisting of a A$35 million cash advance facility and a A$30 million bank guarantee facility which matures in March 2020. In April 2018, as a result of the reduced requirement for the guarantee facility following the exit of the international businesses the $30 million facility was reduced to A$5 million to reduce the costs associated with the unutilised portion of this facility. At 30 June 2018 the RCF was undrawn and $3.5 million of the bank guarantee facility was utilised.

Finance lease liabilities decreased from $9.8 million at 30 June 2017 to $1.2 million at 30 June 2018 as the Company closed out multiple leases acquired from the Andy's and Orionstone businesses and assigned several leases through the disposal of the Canadian business.

Emeco's cash balance was $171.4 million at 30 June 2018 which included $87.5 million in relation to the net cash received from the capital raising associated with the acquisition of Matilda Equipment. This cash was subsequently used to complete the acquisition of Matilda in July 2018 and has been removed from the calculation of net debt at 30 June 2018. Refer to note 24 in the accompanying financial statements for additional information on Emeco's financing facilities.

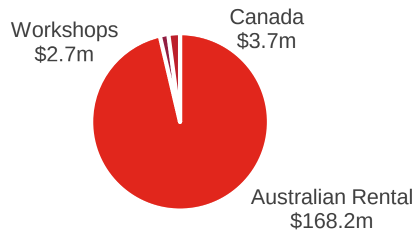
Emeco's leverage ratio has improved from 5.5x at 30 June 2017 to 2.6x at 30 June 2018 due to recognition of a full year of earnings from Andy's and Orionstone, increased cash reserves associated with greater conversion of earnings to cash flow from operations and the acquisition of the Force business in November 2017.

In line with FY17 the board declared a nil interim and final dividend for FY18.

Segment Business Overview

Chart 5: Revenue by segment

Chart 6: Operating EBITDA[2] contribution by segment



Note:

1. Workshops revenue excludes $17.0 million of intersegment revenue
2. Operating EBITDA contribution shows segment contribution to Group operating EBITDA

Main markets

Comprised of the segments being Australian rental and Workshops. The Australian rental business is diversified across bulk commodities and metals with segment performance summarised below:

Australian rental

Revenue in the Australian rental segment increased by 81.2% to $355.2 million with operating EBITDA margins increasing from 32.9% in FY17 to 47.3% in FY18 as a result of increased rental rates, innovative contract structures and utilisation combined with tight cost controls. The Australia rental business improved operating utilisation 62% at the end of FY18 (FY17: 56%). The size of the Australian rental fleet has approximately tripled over the course of the last 18 months as a result of acquisitions and strategic asset swaps to exchange equipment from the discontinued overseas businesses for equipment located in Australia.

Workshops

The Workshops segment was established through the acquisition of Force in November 2018 and earned revenue of $25.8 million for the seven months of ownership, excluding $17.0 million of work performed for the Australian rental business. Due to the low capital intensity of the Workshops operations, the EBITDA margin of this segment is significantly lower than the traditional rental business. Workshops contributed $2.7 million to the Group's Operating EBITDA at a margin of 10.5%. The Workshops provide the rental business with vertical integration and cost savings by providing the capability to rebuild major components. The workshops have also provided opportunities for Emeco to provide rental services to workshop customers that were not traditionally customers of Emeco.

International operations

The operations of the Chilean business were discontinued in June 2017.

An agreement was entered into with Emeco's Canadian strategic partner Heavy Metal Equipment Rental (**HMER**) in FY17 to manage the remaining customer contracts in Canada. In April 2018, ownership of Emeco's Canadian entity was transferred to HMER. The Company has no further exposure related to the Canadian business.

Table 7: Five year financial summary

		2018	2017	2016	2015	2014
REVENUE						
Revenue from rental income	$'000	323,986	208,286	139,545	206,718	205,368
Revenue from sale of machines and parts	$'000	1,835	2,648	5,470	2,788	8,145
Revenue from maintenance services	$'000	55,171	22,080	22,956	31,925	27,582
Total	$'000	380,992	233,014	167,970	241,431	241,095
PROFIT						
EBITDA[2]	$'000	153,004	83,504	54,246	43,364	67,344
EBIT[2]	$'000	83,193	(97,066)	(14,219)	(59,225)	(10,879)
NPAT[2]	$'000	20,068	(90,891)	(90,519)	(94,813)	(213,543)
Statutory profit/(loss) for the year	$'000	11,376	(180,463)	(225,389)	(127,703)	(275,309)
Basic EPS	cents	0.4	(3.7)	(15.1)	(15.8)	(3.6)
BALANCE SHEET						
Total assets	$'000	716,052	520,679	427,692	708,755	748,362
Total liabilities	$'000	562,570	552,686	421,695	487,284	424,390
Shareholders' equity	**$'000**	**(153,482)**	**(32,007)**	**5,997**	**221,471**	**323,972**
Total debt	$'000	484,581	474,109	377,818	423,971	343,774
CASH FLOWS						
Net cash flows from operating activities	$'000	125,533	14,223	70,644	(2,894)	82,072
Net cash flows from investing activities	$'000	(127,087)	486	(23,112)	(13,013)	25,032
Net cash flows from financing activities	$'000	156,730	(21,318)	(49,311)	(6,733)	(71,364)
Free cash flow after repayment/(drawdown) of net debt	**$'000**	**155,174**	**(6,609)**	**(1,779)**	**(22,640)**	**35,740**
Free cash flow before repayment/(drawdown) of net debt[1]	**$'000**	**162,856**	**(334)**	**5,561**	**(18,495)**	**85,889**
DIVIDENDS						
Number of ordinary shares at year end	'000	3,178,859	2,436,860	599,675	599,675	599,675
Total dividends paid in respect to financial year	$'000	0	0	0	0	0
Ordinary dividends per share declared	**cents**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Special dividends per share declared	**cents**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
KEY RATIO'S						
Average fleet utilisation	%	89.6	87.3	76.5	69.0	48.0
Average fleet operating utilisation	%	57.4	52.9	44.0	45.7	32.9
EBIT ROC	%	19.6	3.3	(2.7)	(9.4)	(0.8)
Net debt to operating EBITDA	x	2.62	5.47	6.74	10.29	4.78

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).

2 Operating results. Please refer to previous annual reports for reconciliation between Statutory and Operating Results.

Financial Report

Directors' Report

For the year ended 30 June 2018

The directors of Emeco Holdings Limited (**Emeco** or **Company**) present their report together with the financial reports of the consolidated entity, being Emeco and its controlled entities (**Group**) and the auditor's report for the financial year ended 30 June 2018 (**FY18**).

Directors

The directors of the Company during FY18 were:

PETER RICHARDS BCom

Appointment: Independent Non-Executive Director since June 2010. Chairman since January 2016.

Board committee membership: Chairman of the Remuneration and Nomination Committee since 1 April 2017 and Member of the Audit and Risk Management Committee.

Skills and experience: Peter has over 35 years of international business experience with global and regional companies including British Petroleum (including its mining arm Seltrust Holdings), Wesfarmers Limited, Dyno Nobel Limited and Norfolk Holdings 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 in Australia (2005 to 2008). Peter was a Non-Executive Director (2009 to 2015) of Bradken Limited and a Non-Executive Director (2010 to 2015) of Sedgman Limited.

Current appointments:

- Non-Executive Director of IndiOre Limited (previously known as NSL Consolidated Limited) (since 2009, Chairman 2014 to 2017)
- Non-Executive Director of Graincorp Limited (since 2015)
- Non-Executive Chairman of Cirralto Limited (since December 2017)

IAN TESTROW BEng (Civil), MBA

Appointment: Managing Director since 20 August 2015.

Skills and experience: Ian was appointed Chief Executive Officer in August 2015. Prior to this, Ian was Emeco's Chief Operating Officer, responsible for the Australian and Chilean operations as well as Global Asset Management. Ian has also held the positions of President, New and Developing Business after establishing Emeco's Chilean business in 2012 and President, Americas where Ian managed the exit of Emeco's USA business in 2010 and Emeco's Canadian business commencing in 2009. Ian joined Emeco in 2005, responsible for the business in Queensland and Northern Territory and, then in addition in 2007, New South Wales. Prior to Emeco Ian worked for Wesfarmers Limited, BHP Billiton Ltd, Thiess Pty Ltd and Dyno Nobel.

PETER FRANK BSEE, MBA

Appointment: Non-Executive Director since April 2017

Skills and experience: Peter is a Senior Managing Director at Black Diamond. Prior to joining Black Diamond, Peter was President of GSC Group, a SEC-registered investment adviser, where he worked since 2001. From 2005 until 2008, he served as the Senior Operating Executive for GSC's private equity funds. Prior to 2001, Peter was the CEO of Ten Hoeve Bros Inc and was an investment banker at Goldman Sachs & Co. From April 2010 to May 2015, Peter was a director of Viasystems Group Inc and he is currently a director of Harvey Gulf International Marine LLC, IAP Worldwide Services Inc, North Metro Harness Initiative LLC and White Birch Investment LLC. Peter has also served as chairman of the board of Kolmar Labs Group Inc, Scovill Inc and Worldtex Inc. Peter graduated from the University of Michigan with a BSEE degree and earned an MBA from the Harvard Business School.

KEITH SKINNER B.Comm, FCA, FAICD

Appointment: Independent Non-Executive Director since April 2017

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

Skills and experience: Keith was one of the leading Restructuring and Insolvency practitioners in Australia, leading many corporate turnarounds. Keith was the Chief Operating Officer of Deloitte Australia for 13 years until his retirement from the firm in May 2015. Keith was also a director of Deloitte Australia (1995 to 1997) and a director of the Deloitte Global Firm (2013 to 2015), and a member of the Governance (2013 to 2015) and Risk Committees (2013 to 2015) of both. Keith has also been the Chairman of Emue Technologies Limited (2013 to 2015).

Current appointments:
- Chairman of the Audit and Risk Committee of the Australian Digital Health Agency (since 2016)
- Director of the North Sydney Local Health District (since 2017)
- Director of the Lysicrates Foundation Limited (since 2015)

DARREN YEATES B Eng., MBA, FAICD, Grad Dip Mgt, Grad Dip App. Fin

Appointment: Independent Non-Executive Director since April 2017

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

Skills and experience: Darren has over 30 years' mining industry experience, most recently as CEO of Hancock Coal. He has over 22 years' experience with Rio Tinto including as Acting Managing Director and Chief Operating Officer for Coal Australia, General Manager Ports and Infrastructure for Pilbara Iron and General Manager Tarong Coal. Prior to joining Rio Tinto he worked for 6 years for BHP in coal operations and metalliferous exploration.

Current appointments:
- Director of WorkPac Pty Ltd (since January 2018)

Company secretary

The company secretary of the Company during FY18 was:

PENELOPE YOUNG LLB, LLM, BBus

Appointment: Company Secretary since April 2017.

Penny was appointed General Counsel in July 2017 and Company Secretary to the Emeco Board in April 2017. Penny joined Emeco as Senior Legal Counsel in May 2015. Prior to joining Emeco, Penny spent the majority of her career as a corporate and commercial lawyer in private practice. Penny holds a Bachelor of Laws, Master of Laws and a Bachelor of Business.

Directors' meetings

The number of board and committee meetings held and attended by each director in FY18 is outlined in the following table below:

Table 8: Board and committee meetings held and director attendance

Director	Board meetings		Audit & risk management committee meetings		Remuneration & nomination committee meetings	
	A	B	A	B	A	B
Peter Richards	14	14	5	5	2	2
Ian Testrow	14	14	5 *	5	2 *	2
Peter Frank	14	14	1 *	5	1 *	2
Keith Skinner	13	14	5	5	2	2
Darren Yeates	14	14	5	5	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.

Corporate governance statement

The Company's corporate governance statement is located on the Company's website at https://www.emecogroup.com/investors-overview/corporate-governance.

Principal activities

The principal activity during FY18 of the Group was the provision of safe, reliable and maintained earthmoving equipment solutions to customers in the earthmoving industry as well as the maintenance and remanufacturing of major components of heavy earthmoving equipment.

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 FY18, is set out in the operating and financial review section at pages 6 to 12 and in the accompanying financial statements.

Dividends

No dividends were declared or paid during FY18. No dividends have been declared or paid since the end of FY18.

Significant changes in state of affairs

Other than those disclosed in the operating and financial review section or the financial statements and the notes thereto, in the opinion of the directors, there were no significant changes in the Group's state of affairs that occurred during the financial year under review.

Events subsequent to report date

On 2 July 2018, the Company acquired Matilda Equipment Holdings Pty Ltd and its subsidiary Matilda Equipment Pty Ltd. Refer to note 36 for further details on the transaction.

No other significant events have occurred subsequent to the year ended 30 June 2018.

Likely developments

Likely developments in, and expected results of, the operations of the Group are referred to in the operating and financial review section at pages 6 to 12. This report omits information on likely developments in the 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 Group.

Directors' interest

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 9: Directors' Interests

Director	Ordinary shares	Options or rights
Peter Richards	68,179	-
Ian Testrow	849,590 [A]	121,696,461 [B]
Peter Frank	-	-
Keith Skinner	-	-
Darren Yeates	-	-

[A] This comprises ordinary shares held directly by Mr Testrow and those which he acquired under the Company's FY15 employee share ownership plan but which are held for Mr Testrow in an account managed by Pacific Custodian Pty Ltd. Pacific Custodian Pty Ltd is also trustee of the Emeco share plans.

[B] This comprises unvested performance shares issued under the Company's FY16 and FY17 long term incentive plans after shareholder approval. See section 6

Indemnification and insurance of 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 strategy officer, 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 current and former officers of the Emeco Group, including executives, against liabilities incurred by such an officer 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 auditor, Deloitte Touche Tohmatsu.

Non-audit services

During the year, Deloitte Touche Tohmatsu, the Group'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 Group and have been reviewed by the audit and risk management committee to ensure they do not impact the integrity and objectivity of the auditor.
- 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 auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing the risks and rewards.

Details of the amounts paid to the auditor of the Group, Deloitte Touche Tohmatsu and its network firms, for audit and non-audit services provided during the year are found in note 9 of the notes to the financial statements.

Lead auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 33 and forms part of the directors' report.

Rounding off

The amounts contained in the financial report have been rounded to the nearest $1,000 (unless otherwise stated) under the option available to the Company as referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016. The Company is an entity to which the class order applies.

Remuneration report (audited)

Remuneration report contents

This report covers the following matters:

1. Introduction

This report details the Group's remuneration objectives, practices and outcomes for key management personnel (**KMP**), which includes directors and executives, for the year ended 30 June 2018. Any reference to 'executives' in this report refers to KMP who are not non-executive directors.

The following persons were directors of the Company during FY18:

Non-executive directors	
Peter Richards	Chair
Peter Frank	
Keith Skinner	
Darren Yeates	

Executive directors	
Ian Testrow	Managing Director & Chief Executive Officer

The following persons were also employed as executives of the Company during FY18:

Other executives	**Position**
Thao Pham	Chief Strategy Officer
Justine Lea	Chief Financial Officer

2. Remuneration governance

The board is committed to implementing KMP 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;
- incentivising executives to remain with the Group; 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 KMP remuneration policies and practices.

The remuneration and 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 KMP remuneration 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 KMP;
- 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 in FY18 were Mr Peter Richards (Chair), Mr Keith Skinner and Mr Darren Yeates.

3. Executive remuneration

3.1 Remuneration policy

The Group remuneration policy is substantially reflected in the objectives of the Company's remuneration and nomination committee. The committee's objectives are summarised in the following table:

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 executive energy and loyalty. Benchmark remuneration structures to ensure alignment with industry trends.
Align executive interests with those of shareholders	Provide a significant proportion of 'at risk' remuneration to ensure that executive reward is directly linked to the creation of shareholder value. Ensure 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 the Company's executives consists of fixed and variable components. The variable component ensures that a proportion of pay varies with Company performance.

3.2 Fixed remuneration

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

Each executive's fixed remuneration is reviewed and benchmarked annually in August. In FY18, this process did not result in any change in any executive's fixed remuneration.

The level of remuneration is set to enable the Company to attract and retain proven performers once they are working within the business. An executive's responsibilities, experience, qualifications, performance and geographic location are also taken into account.

Fixed remuneration for executives has previously been 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.

3.3 Variable remuneration

The Company is committed to regularly reviewing senior management variable remuneration arrangements to reward and retain proven performers within the Group. Variable remuneration consists of short and long term incentives.

In FY18, the variable remuneration review took into account the Group's significant recent transformation and key items of focus for the FY18 financial year, including continuing to deleverage the Company. This resulted in the design of Emeco's new hybrid incentive plan (**EHIP**) for FY18 which includes both short term, cash incentive (**STI**) and long term, equity security incentive (**LTI**) elements, award of which is determined by reference to the Company's performance over FY18.

Emeco believes that continuing to retain its long-term, experienced and execution-focused management team has been instrumental in Emeco attacking its challenges over the last 12 months. As such, retaining and rewarding senior management is considered key in continuing to drive the Company's performance and achievement of the Group's business and strategic objectives and therefore value generation for shareholders.

Awards under the FY18 EHIP are for performance assessed over the FY18 financial year, however, the actual awards are scheduled to be made at different points in time. The cash component of the FY18 EHIP is determined, and paid, after the Company's FY18 performance is assessed against the key performance indicators (**KPIs**). See section 3.3.1.3 for more information. The equity component of the EHIP is also determined by reference to the KPIs but is subject to an additional service condition in order to incentivise senior managers (including executives) to continue with the Group. The ultimate deferred award of the equity security component also involves an inherent share price KPI over the vesting period. See section 3.3.1.2 for more information.

For each executive offered awards under the EHIP in FY18, the below table sets out the maximum remuneration attributable to:

- short term, cash incentive as a percentage of total fixed remuneration (**TFR**); and
- long term, equity security incentive as a percentage of TFR if the executives remain employed by the Group until the vesting date (see table 14 for details),

if maximum performance is achieved.

Table 10: Components of variable remuneration

Executive	Position	Maximum STI / cash	Maximum LTI / equity	Maximum total variable remuneration
Ian Testrow	Managing Director & Chief Executive Officer	80%	120%	200%
Thao Pham	Chief Strategy Officer	60%	40%	100%
Justine Lea	Chief Financial Officer	60%	40%	100%

3.3.1 EHIP

Given the currently highly dynamic status of the Company, the EHIP has been designed to ensure focus on the Company's current objectives, acknowledging these may change with the transformation of the Company over a longer period, whilst retaining and rewarding the senior management team thereby enhancing alignment between senior management remuneration and wealth creation for shareholders.

The actual amount of the awards under the EHIP are determined after the end of the financial year in light of the Company's financial performance against KPIs. See section 3.3.1.3 below for more information on the KPIs. See tables 11, 13 & 14 for information on actual incentives awarded.

All executive awards require review and approval by the remuneration and nomination committee and the board.

3.3.1.1 Cash / STI

An executive's maximum achievable cash award is set as a percentage of TFR (see table 10 above for details). The actual amount of the cash award under the EHIP is determined and paid after the end of the financial year in light of the Company's performance against the KPIs.

3.3.1.2 Equity security / LTI

The maximum achievable equity security award for each executive is also set out as a percentage of TFR in table 10 above.

EHIP equity awards are rights to fully paid ordinary Emeco shares (**Shares**), subject to the service condition being met. These awards may be in the form of performance rights or performance shares (**Rights**). The only difference between performance rights and performance shares is that performance shares are backed by Shares on issue whereas performance rights are not. Rights that do not vest will lapse.

Award
Rights are awarded after the Company's FY18 performance is assessed against the KPIs. The award of Rights under the FY18 EHIP is at no cost to the employee and is calculated by reference to the July 2017 VWAP of Emeco shares.

Service condition
Subject to continued employment with the Group, EHIP Rights will vest in FY20 on the vesting date (see table 14 below). Retaining senior management is particularly important to the Company given the Group's significant growth and focus on deleveraging in order to position the Group well for refinancing the Group's notes due in 2022.

3.3.1.3 Key performance indicators

Along with financial performance indicators tailored to the Group's key items of focus for the financial year, the KPIs are chosen to include important non-financial metrics and goals which are aligned with the long term performance and sustainability of the Company. In FY18, a safety KPI was once again included given the importance of safety to the Group's workforce, customers and stakeholders. A deleveraging KPI was also included to further focus executive efforts on strengthening the Group's balance sheet and the long term sustainability and success of the Group.

The FY18 EHIP provided for pro-rata entitlements where performance in respect of the KPIs was between the thresholds and targets (see table 11). In FY18, the executives had identical KPIs and no personal KPIs so as to focus executive efforts on the overall performance and strategic objectives of the Group in addition to promoting collaboration and support between executives, senior managers and the Group as a whole.

Table 11 below sets out the KPIs for the FY18 EHIP and the weightings attributable to each of them. In the board's view, these KPIs align the reward of executives with the interests of shareholders.

Table 11: FY18 EHIP KPI weightings and entitlements

KPI	Weighting	Entitlement	Rationale	Achievement
Health & Safety	20%	0% if the TRIFR [A] as at 30 June 2018 is higher than the TRIFR as at 30 June 2017. 20% if the TRIFR as at 30 June 2018 is 20% lower than the TRIFR as at 30 June 2017. Pro-rata payments between these levels. Notwithstanding the above, no entitlement if there is a serious, permanently disabling injury or a fatality.	The board regularly reviews the Company's safety performance in detail and is striving to achieve a 'zero-harm' workplace at Emeco. TRIFR measures progress towards this aspiration.	100%
Financial	60%	0% if actual FY18 operating EBITDA is equal to or less than 85% of budget FY18 operating EBITDA. 100% if actual FY18 operating EBITDA is equal to or greater than 115% of budget FY18 operating EBITDA. Pro-rata payments between these levels.	Reflects the financial performance and the ability of the Company to pay STI awards.	100%
Strategic Goals	20%	0% if leverage for FY18 is equal to or more than 4Q17. 20% if leverage for FY18 is equal to or less than 3x Pro-rata payments between these levels.	Reflects the Company's focus on deleveraging and ensuring a sustainable business throughout the mining sector cycles.	100%

[A] $\text{TRIFR} = \frac{\text{Number of recordable injuries x 1,000,000 hours}}{\text{Total hours worked}}$

3.4 Prohibition of hedging securities

Emeco's share trading policy prohibits executives, directors, officers and employees of the Group from entering into transactions intended to hedge their exposure to Emeco securities which have been issued as part of remuneration.

3.5 Relationship between remuneration and Company performance

Emeco's remuneration objectives are focused on driving and rewarding leadership performance and behaviours consistent with the Company's overall performance and strategic objectives, including increasing shareholder wealth. By setting KPIs which are focused on the overall performance of the Company and deleveraging to ensure a sustainable business throughout the mining cycles, the interests of Emeco's executives are aligned with the interests of the Company and its shareholders. Further, the Company considers that KPIs which are consistent across the executive team, promote a strong culture of performance, collaboration, support and continuity which is vital to driving Emeco's financial performance and its business and strategic objectives.

FY17 and FY18 have been periods of transformation for Emeco. Going into FY17, Emeco had significant challenges reflected in its share price. However, through cost discipline, focus on the Group's customers and the Group's recapitalisation and acquisitions of Andy's Earthmovers (Asia Pacific) Pty Ltd (**Andy's**) and Orionstone Holdings Pty Ltd (**Orionstone**), Emeco's financial performance and leverage ratios improved. This resulted in 100% of the executives' target short term incentive being awarded in FY17.

Throughout FY18, the Company remained focused on cash generation through increasing rental rates and utilisation, reducing costs, and managing capital expenditure and working capital in order to deleverage and further strengthen its balance sheet. Operating EBITDA is a good indicator of the Company's cash generating ability. The acquisition of Force Equipment Pty Ltd (**Force Equipment**) in November 2017 has also increased the Group's ability to generate revenue and manage capital expenditure through the addition of fleet, workshops and component rebuild capability and, overall, has enhanced the Group's financial flexibility and ability to reduce debt.

Retaining senior management over the period and throughout the Force Equipment, Andy's and Orionstone integrations has been fundamental to Emeco's significant improvements in performance and in placing the Group in a leading market position from which to benefit from the current stronger market conditions. As a result of Emeco's improved performance over FY18, the KPIs were 100% achieved and, accordingly, executives will be rewarded with maximum short term and long term awards under EHIP.

Rights awarded under the EHIP are dependent on continued employment with the Group over the vesting period. As such, the value of rights is ultimately dependent on the share price at the end of the vesting period and therefore incorporate an inherent share price KPI over the vesting period. No incentives under the Company's previous long term incentive plans vested in FY18. See section 6 for more detail.

A summary of the KPIs for the FY18 EHIP plans are set out in the following table:

KPI	Cash	Equity
Financial	Operating EBITDA; Leverage	Share price
Non-financial	Safety	Continued employment

The awards to executives in FY17 and FY18 reflect the significant improvement in Company performance over this period. The extent to which Emeco has set financial KPIs which are genuinely challenging, and which mean that variable remuneration is genuinely at risk, is highlighted by the fact that in FY16 executives only received 25% of their target short term incentive as the operating EBITDA target was not met. In FY15, no executive subject to the financial hurdle received a STI payment. In FY14, no STIs in respect of financial KPIs were awarded however STIs were awarded for safety, personal goals and the sale of idle assets KPIs being met. Details of the FY18 KPIs are set out above in section 3.3.1.3.

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

	FY18	FY17	FY16	FY15	FY14
Profit/(loss) from continuing operations ($m)	5.3	(156.2)	(225.3)	(123.1)	(224.2)
Profit/(loss) from discontinuing operations ($m)	6.1	(24.3)	(56.9)	(4.6)	(51.1)
Statutory EBITDA ($m)	130.7	69.6	47.6	32.8	27.2
Statutory profit/(loss) ($m)	11.4	(180.5)	(225.3)	(127.7)	(275.3)
Total dividends declared ($m)	-	-	-	-	-
Statutory return on capital employed	11.7%	(50.2%)	(61.6%)	(20.7%)	(30.7%)
Closing share price as at 30 June	$0.38	$0.11	$0.03	$0.08	$0.20

Macroeconomic uncertainty, a downturn in the resources sector globally, difficult trading conditions in Emeco's markets and a resultant decline in the Company's earnings saw the Company's share price decline and close at 20 cents, 8 cents, 3 cents on 30 June 2014, 30 June 2015 and 30 June 2016 respectively. FY17 saw improving market conditions, an increase in the Company's earnings and completion of the Group's recapitalisation and the acquisitions of Andy's and Orionstone (**Transaction**). Accordingly, the Company's share price increased, closing at 10.5 cents on 30 June 2017. In FY18, market conditions and the Company's performance continued to improve and, towards the end of the first half, the Company acquired Force Equipment, thereby expanding the Group's fleet and, importantly, acquiring the strategically important component rebuild capability providing vertical integration. At market close at the end of FY18, the Company's share price reached 37.5 cents. Notwithstanding this, no long term securities have vested in the last five years.

The change to vesting conditions for the Company's long term equity incentive plans in recent years has provided senior managers with a more meaningful incentive to remain with the Group over the longer term. The Company regards retaining senior managers as a vital factor in the performance of the Group in the immediate and longer term. The Company's innovative technological platforms, in addition to the enhanced fleet and capability, facilitated by the acquisitions of Andy's, Orionstone, Force Equipment and Matilda Equipment Holdings Pty Ltd, positions the Group well to add further value for Emeco customers and increase Company earnings. The value of equity awards upon vesting is wholly dependent on the Company's share price, which aligns executives' interests with that of shareholders.

4. Non-executive director remuneration

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.

Non-executive director fees are usually reviewed and benchmarked annually in August. However, given changes to the board composition in April 2017 in connection with the Group's recapitalisation and the acquisitions of Andy's and Orionstone, the review did not take place in FY18.

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 chair of the board is entitled to an annual fee of $158,238. All other non-executive directors receive an annual fee of $90,422. An additional annual fee of $6,782 is paid to a director who is a member of a board committee. This fee increases to $9,042 for a director who chairs a committee. All amounts specified in this section are inclusive of superannuation contributions.

Due to the small number of Australian based non-executive directors in FY18, all Australian non-executive directors sit on more than one committee. However, non-executive directors only get paid for sitting on one committee.

5. Details of remuneration

5.1 Remuneration received in relation to FY18

Details of the elements comprising the remuneration of the Group's KMP in FY18 are set out in table 12 below. The table does not include the following components of remuneration because they were either not provided to KMP during FY18 or were not available to KMP by reason of their executive role:

- Short term cash profit sharing bonuses.
- Long term incentives distributed in cash.
- Post-employment benefits other than superannuation.
- Share based payments other than shares and units and share based payments in the form of options.

Also, payments made in respect of a period before the appointment, or after the cessation, of a person as KMP are not included in table 12.

Table 12: FY18 KMP remuneration (Company and consolidated)

	Short-term employee benefits			Post-employment benefits			Share based payments		
	Salary and fees	Short term bonus payments [1]	Non-monetary	Superannuation benefits	Other long term benefits	Termination benefits	Long term equity incentives [2]	Total	% of remuneration performance related
	$	$	$	$	$	$	$	$	
Non-executive directors									
Peter Richards	153,325	-	-	13,955	-	-	-	167,280	-
Peter Frank	82,578	-	-	7,844	-	-	-	90,422	-
Keith Skinner	90,835	-	-	8,629	-	-	-	99,464	-
Darren Yeates	88,771	-	-	8,433	-	-	-	97,204	-
TOTAL NON-EXECUTIVE DIRECTORS	**415,509**	**-**	**-**	**38,861**	**-**	**-**	**-**	**454,370**	**-**
Executive directors									
Ian Testrow	961,834	704,000		30,873	40,523	-	3,154,274	4,891,504	79%
Other executives									
Thao Pham	366,191	210,240	-	27,338	11,425	-	714,553	1,329,747	70%
Justine Lea	335,616	197,100	-	26,489	40,523	-	227,338	827,066	51%
TOTAL ALL EXECUTIVES	**1,663,641**	**1,111,340**	**-**	**84,700**	**92,471**	**-**	**4,096,165**	**7,048,317**	
TOTAL	**2,079,150**	**1,111,340**	**-**	**123,561**	**92,471**	**-**	**4,096,165**	**7,502,687**	

[1] This figure includes cash awards under the FY18 EHIP approved by the board after review of performance against the KPIs (refer to table 13).
[2] This figure includes long term, equity based incentives awarded by the Company in FY15, FY16 and FY17.

Comparative information relating to remuneration of the Group's KMP for the prior financial year is set out below:

	Short-term employee benefits			Post-employment benefits			Share based payments		
	Salary and fees $	Short term bonus payments [1] $	Non-monetary $	Superannuation benefits $	Other long term benefits $	Termination benefits $	Long term equity incentives [2] $	Total $	% of remuneration performance related
Non-executive directors									
Peter Richards	151,219	-	-	14,366	-	-	-	165,585	-
John Cahill [A]	68,126	-	-	6,472	-	-	-	74,598	-
Peter Frank [B]	20,644	-	-	1,961	-	-	-	22,605	-
Keith Skinner [B]	22,709	-	-	2,157	-	-	-	24,866	-
Erica Smyth [A]	68,126	-	-	6,472	-	-	-	74,598	-
Darren Yeates [B]	22,193	-	-	2,108	-	-	-	24,301	-
TOTAL NON-EXECUTIVE DIRECTORS	**353,017**	**-**	**-**	**33,536**	**-**	**-**	**-**	**386,553**	**-**
Executive directors									
Ian Testrow [C]	801,002	3,060,000 [E]	60,275	32,302	60,173	-	969,333	4,983,085	81%
Gregory Hawkins [D]	51,834	-	-	5,839	-	-	(134,442)	(76,768)	n/a
Other executives									
Thao Pham	335,398	600,400 [F]	-	26,775	-	-	232,462	1,195,035	70%
Justine Lea	318,365	428,500 [F]	-	29,086	22,551	-	69,905	868,407	57%
TOTAL ALL EXECUTIVES	**1,506,599**	**4,088,900**	**60,275**	**94,002**	**82,724**	**-**	**1,137,258**	**6,969,758**	
TOTAL	**1,859,616**	**4,088,900**	**60,275**	**127,538**	**82,724**	**-**	**1,137,258**	**7,356,311**	

[1] This figure includes: (i) STI awards under the FY17 plan which were finally determined on 24 August 2017 after completion of performance reviews and (ii) Transaction related bonuses and payments (see notes E and F below).
[2] This figure includes equity based incentives offered under the Company's long-term equity based incentive plans in FY15, FY16 and FY17.
[A] Mr John Cahill and Ms Erica Smyth ceased as non-executive directors on 1 April 2017.
[B] Mr Peter Frank, Mr Keith Skinner and Mr Darren Yeates commenced as non-executive directors on 1 April 2017.
[C] Mr Ian Testrow received non-monetary benefits including housing in respect of his relocation arrangement back to Australia in 2014. These benefits ceased in February 2017.
[D] Mr Gregory Hawkins ceased his role as Executive Director, Finance on 19 August 2016. All unvested long term securities offered to Mr Hawkins were forfeited in accordance with their terms and expensed through the income statement.
[E] This figure includes the following one-off cash bonuses paid to Mr Ian Testrow after completion of the Transaction: (i) $650,000 in recognition of Mr Testrow's partial MIP sacrifice during the Transaction; and (ii) Transaction bonus of $650,000 (in accordance with Mr Testrow's executive services agreement, completion of the Transaction on 31 March 2017 gave rise to an entitlement to a transactional bonus of $1,000,000. The transactional bonus was entirely dependent on the Transaction completing and therefore was either payable in full or not payable at all. Mr Testrow elected to exercise his option to share, and directed portions of, the transactional bonus to other KMPs in recognition of their significant contributions to completion of the Transaction (see note F below).
[F] This figure includes one-off transactional cash bonuses of $250,000 and $100,000 paid to Ms Thao Pham and Ms Justine Lea respectively in recognition of their significant contributions to completion of the Transaction (see note E above).

5.2 FY18 EHIP STI cash grants

The terms of the FY18 EHIP plan are discussed at pages 24 to 26.

Details of the vesting profile of the short term, cash grants awarded to executives in respect of FY18 are set out below:

Table 13: FY18 executive STI vesting information

Executive	Maximum total STI / cash incentive [1]	% awarded	% forfeited
Ian Testrow	$704,000	100%	0%
Thao Pham	$210,240	100%	0%
Justine Lea	$197,100	100%	0%

[1] The minimum short term, cash grant value for each executive is zero.

The awards to executives in FY18 reflect the significant amount of work undertaken to achieve the Company's objectives.

6. Share-based payments

The terms of the FY18 EHIP, including applicable performance and service conditions, are discussed at page 24 to 26.

Historically most of the Company's long term incentive plans included a performance condition based on the relative total shareholder return (**TSR**) of the Company measured against a peer group over a three year vesting period. TSR performance conditions became particularly difficult to satisfy after FY12 given the downturn in the mining sector and this seemingly affected the value of these plans as a retention tool. Recognising the crucial role senior management have in the recovery of a business, in FY16 the Company moved to a retention based long term incentive plan, under which the awards vest at the end of a three-year period to incentivise continued service.

In FY17, as part of the Transaction, the Company's shareholders approved the establishment of the management incentive plan (**MIP**) and the MIP awards to Mr Testrow. Awards to executives under the MIP formed an important aspect of the Transaction and incentivised management to remain with the Group post-Transaction and beyond in order to achieve timely integration of the businesses and achievement of the Group's long term objectives, thereby aligning the interests of executives with the long term interests of shareholders.

Grants and vesting of equity awards made to executives in connection with the FY18 EHIP and the Company's long term incentive plans in FY15, FY16 and FY17 are set out in the following table:

Table 14: Summary of executive KMP allocated, vested or lapsed equity

Executive	Grant date	Equity instrument [1]	Number granted	% vested in FY18	% forfeited in FY18	Vesting date [2]	Fair value per share/right at grant date [3]
Ian Testrow [A]	14/12/2016	Performance shares	1,550,000	-	100%	28/09/2017	$0.12
	14/12/2016	Performance shares	13,021,703	-	-	17/09/2018	$0.03
	31/03/2017	Performance shares	108,674,758	-	-	1/04/2020	$0.08
	TBA	TBA	[8,250,000]	-	-	31/03/2020	TBA
Thao Pham	24/11/2014	Performance shares	640,000	-	100%	28/09/2017	$0.12
	05/02/2016	Performance shares	3,330,756	-	-	17/09/2018	$0.03
	31/03/2017	Performance rights	24,368,606	-	-	1/04/2020	$0.08
	20/08/2018	Performance rights	1,095,000	-	-	30/06/2020	$0.36
Justine Lea	24/11/2014	Performance shares	244,000	-	100%	1/09/2017	$0.12
	31/03/2017	Performance rights	8,122,868	-	-	1/04/2020	$0.08
	20/08/2018	Performance rights	1,026,563	-	-	30/06/2020	$0.36

[A] Mr Ian Testrow's grant of awards under the: (i) FY15 and FY16 long term incentive plans were approved by shareholders on 14 December 2016; (ii) FY17 MIP was approved by shareholders on 13 March 2017, subject to completion of the Transaction; and (iii) FY18 EHIP is subject to shareholder approval at the 2018 annual general meeting.

[1] A performance share represents one fully paid ordinary Emeco share on issue. A performance right is a right to receive one fully paid ordinary Emeco share. The vesting of performance shares and performance rights is subject satisfaction of vesting conditions.

[2] Vesting is subject to satisfaction of vesting conditions. The minimum total value of the grants for future financial years is zero if the service condition is not satisfied. An estimate of the maximum possible total value in future financial years is the fair value at grant date multiplied by the number of equity instruments awarded. See section 3.3.1.2 for details of the performance and service conditions applicable to awards under the FY18 EHIP. The performance shares granted under the Company's FY15 long term plan lapsed due to the TSR performance condition not being met. Full details of the vesting conditions for all prior year equity grants to executives are included in the remuneration report for the relevant year.

[3] The fair value of the performance shares granted in FY15 and FY16 was determined using a Monte Carlo share price simulation model. The fair value of awards granted under the MIP in FY17 and FY18 EHIP was determined using the 30 day volume weighted average price on the grant date. For all securities, the fair value is allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed in the KMP remuneration table (table 12) is the portion of the fair value of the securities recognised in FY18. The fair value of all securities is not related to or indicative of the benefit (if any) that an executive may ultimately realise if the equity instruments vest.

7. KMP share and equity holdings

Details of shares and equity held by KMP, including their personally related entities, for FY18 are as follows:

Table 15: KMP holdings

	Equity instrument	Holding at 1 July 2017	Rights granted in FY18	Rights vested in FY18	Shares granted in FY18	Net changes other	Holding at 30 June 2018
Non-executive directors							
Peter Richards	Shares	52,264	-	-	-	15,915	68,179
Executives							
Ian Testrow	Performance shares	123,246,461	-	-	-	(1,550,000)	121,696,461
	Shares	757,831	-	-	-	91,759	849,590
Thao Pham	Performance shares	3,970,756	-	-	-	(640,000)	3,330,756
	Performance rights	24,368,606	-	-	-	-	24,368,606
	Shares	78,238	-	-	-	-	78,238
Justine Lea	Performance shares	244,000	-	-	-	(244,000)	-
	Performance rights	8,122,868	-	-	-	-	8,122,868
	Shares	4,000	-	-	-	1,218	5,218

8. Service contracts

Each executive is employed pursuant to contracts which provide for an indefinite term. In respect of Mr Testrow, his employment contract is terminable by either party giving notice of the greater of: (i) 12 months; and (ii) a period expiring on 30 March 2020 (**Notice Period**) or on the payment to Mr Testrow of the Notice Period in lieu of notice (subject to shareholder approval where required). The employment contracts of the other executives are terminable on either party giving six months' notice or on the payment to the executive of up to six 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.

Signed in accordance with a resolution of the directors.

Ian Testrow
Managing Director

Dated at Perth, 20th day of August 2018

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Deloitte Touche Tohmatsu
Tower 2, Brookfield Place,
123 St Georges Tce,
Perth WA 6000, Australia

DX 206
Tel: +61 (0) 8 9365 7000
Fax: +61 (0) 8 9365 7001
www.deloitte.com.au

The Board of Directors
Emeco Holdings Limited
3/71 Walters Drive
Perth WA 6017

20 August 2018

Dear Board Members

Emeco Holdings Limited

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

As lead audit partner for the audit of the financial statements of Emeco Holdings Limited for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
Partner
Chartered Accountants

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
Continuing operations			
Revenue from rental income		323,986	174,313
Revenue from the sale of machines and parts		1,835	1,630
Revenue from maintenance services		55,171	20,099
		380,992	196,042
Repairs and maintenance		(104,888)	(55,575)
Employee expenses	8	(35,416)	(20,240)
External maintenance services		(39,996)	(14,398)
Cartage and fuel		(10,309)	(8,303)
Hired in equipment and labour		(11,824)	(16,114)
Depreciation expense	8	(68,844)	(54,747)
Gross profit		109,715	26,665
Other income	7	2,251	247
Other expenses	8	(46,314)	(29,781)
Impairment of tangible assets	8	(11,150)	(8,206)
Amortisation expense	21	(1,017)	(826)
Business acquisition and restructuring transaction expenses	8b	(3,836)	(87,997)
Finance income	8	492	14,095
Finance costs	8	(50,911)	(46,665)
Net foreign exchange loss	8	(12,617)	(10,028)
Loss before tax expense		(13,387)	(142,496)
Tax benefit/(expense)	10	18,707	(14,671)
Profit/(loss) from continuing operations		5,320	(157,167)
Discontinued operations			
Profit/(loss) from discontinued operations (net of tax)	14	6,056	(23,296)
Profit/(loss) from discontinued operations		6,056	(23,296)
Profit/(loss) for the year		11,376	(180,463)
Other comprehensive income/(loss)			
Items that are or may be reclassified to profit and loss:			
Foreign currency translation differences for foreign operations (net of tax)		(4,639)	14,397
Changes in fair value of cash flow hedges (net of tax)		1,535	(15,400)
Total other comprehensive income/(loss) for the year		(3,104)	(1,003)
Total comprehensive income/(loss) for the year		8,272	(181,466)

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 39 to 113.

Emeco Holdings Limited and its Controlled Entities

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

For the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
Profit/(loss) attributable to:			
Owners of the Company	35	11,376	(180,463)
Profit/(loss) for the year		11,376	(180,463)
Total comprehensive profit/(loss) attributable to:			
Owners of the Company	35	8,272	(181,466)
Total comprehensive profit/(loss) for the year		8,272	(181,466)

	Note	2018 cents	2017 cents
Profit/(loss) per share:			
Basic profit/(loss) per share	35	0.43	(18.66)
Diluted profit/(loss) per share	35	0.40	(18.66)
Profit/(loss) per share from continuing operations			
Basic profit/(loss) per share	35	0.20	(16.15)
Diluted profit/(loss) per share	35	0.19	(16.15)

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 39 to 113.

Emeco Holdings Limited and its Controlled Entities

Consolidated Statement of Financial Position

as at 30 June 2018

	Note	2018 $'000	2017 $'000
Current Assets			
Cash and cash equivalents	17	171,431	16,978
Trade and other receivables	18	90,367	113,535
Inventories	20	4,895	3,114
Prepayments		2,722	2,956
Assets held for sale	15	8,007	26,421
Total current assets		277,422	163,004
Non-current Assets			
Trade and other receivables	18	-	237
Derivative financial instruments	19	5,709	4,015
Intangible assets	21	1,994	2,887
Property, plant and equipment	22	407,951	349,737
Deferred tax assets	12	22,177	-
Investments		799	799
Total non-current assets		438,630	357,675
Total assets		716,052	520,679
Current Liabilities			
Trade and other payables	23	80,194	82,545
Liabilities directly associated with assets classified as held for sale	15	-	449
Derivative financial instruments	19	7,866	8,366
Interest bearing liabilities	24	3,012	6,894
Provisions	26	6,769	6,383
Total current liabilities		97,841	104,637
Non-current Liabilities			
Interest bearing liabilities	24	464,343	447,145
Provisions	26	386	904
Total non-current liabilities		464,729	448,049
Total liabilities		562,570	552,686
Net (liabilities)/assets		153,482	(32,007)
Equity			
Share capital	13	915,224	749,117
Reserves		6,326	(537)
Retained losses		(768,068)	(780,587)
Total equity attributable to equity holders of the Company		153,482	(32,007)

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 39 to 113.

Emeco Holdings Limited and its Controlled Entities

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

	Share capital $'000	Share based payment reserve $'000	Hedging reserve $'000	Foreign currency translation reserve $'000	Reserve for own shares $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2016	593,616	16,744	345	16,050	(20,634)	(600,124)	5,997
Total comprehensive income for the period							
Profit or (loss)	-	-	-	-	-	(180,463)	(180,463)
Other comprehensive income							
Foreign currency translation differences	-	-	12,581	1,816	-	-	14,397
Changes in fair value of cash flow hedge, net of tax	-	-	(15,400)	-	-	-	(15,400)
Total comprehensive income/(loss) for the period	-	-	(2,819)	1,816	-	(180,463)	(181,466)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Shares issued during the period, net of issue costs	155,501	-	-	-	-	-	155,501
Own shares acquired by employee share plan trust	-	-	-	-	(18,440)	-	(18,440)
Share-based payment transactions	-	6,401	-	-	-	-	6,401
Total contributions by and distributions to owners	155,501	6,401	-	-	(18,440)	-	143,462
Balance at 30 June 2017	749,117	23,145	(2,474)	17,866	(39,074)	(780,587)	(32,007)

	Share capital $'000	Share based payment reserve $'000	Hedging reserve $'000	Foreign currency translation reserve $'000	Reserve for own shares $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2017	749,117	23,145	(2,474)	17,866	(39,074)	(780,587)	(32,007)
Total comprehensive income for the period							
Profit or (loss)	-	-	-	-	-	11,376	11,376
Other comprehensive income							
Foreign currency translation differences	-	-	(3,705)	(934)	-	-	(4,639)
Changes in fair value of cash flow hedge, net of tax	-	-	1,535	-	-	-	1,535
Reclassfication of FCTR reserve on disposal of subsidiary	-	-	-	(1,143)	-	1,143	-
Total comprehensive income/(loss) for the period	-	-	(2,170)	(2,077)	-	12,519	8,272
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Shares issued during the period, net of issue costs	166,107	-	-	-	-	-	166,107
Shares distributed from trust	-	(6,048)	-	-	6,048	-	-
Own shares acquired by employee share plan trust	-	-	-	-	-	-	-
Share-based payment transactions	-	11,110	-	-	-	-	11,110
Total contributions by and distributions to owners	166,107	5,062	-	-	6,048	-	177,217
Balance at 30 June 2018	915,224	28,207	(4,644)	15,789	(33,026)	(768,068)	153,482

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 39 to 113.

Emeco Holdings Limited and its Controlled Entities

Consolidated Statement of Cash Flows

For the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Cash receipts from customers		413,101	142,128
Cash paid to suppliers and employees		(234,892)	(131,468)
Cash generated from operations		178,209	10,660
Finance income received		383	37
Finance expense paid		(46,865)	(38,009)
Cash receipts from derivatives sold		-	15,354
Net cash inflow/(outflow) from operating activities of discontinued operations	14	(6,194)	25,554
Net cash from operating activities	30	125,533	13,596
Cash flows from investing activities			
Proceeds on disposal of non-current assets		22,726	4,552
Payment for property, plant and equipment		(80,500)	(30,715)
Cash acquired from acquired business	36	3,395	942
Payment for acquired entities	36	(72,643)	-
Acquisition costs	8b	(3,836)	(14,445)
Net cash inflow from investing activities of discontinued operations	14	3,771	26,296
Net cash (used in) investing activities		(127,087)	(13,370)
Cash flows from financing activities			
Net proceeds from issue of shares		164,410	20,000
Payment for debt establishment costs		(1,078)	(20,598)
Payment of finance lease liabilities		(5,792)	(3,013)
Net cash outflow from financing activities of discontinued operations	14	(810)	(3,145)
Net cash generated by/(used in) financing activities		156,730	(6,756)
Net increase/(decrease) in cash and cash equivalents		155,176	(6,530)
Cash and cash equivalents at beginning of the period		16,978	24,854
Effects of exchange rate fluctuations on cash held		(723)	(1,346)
Cash and cash equivalents at the end of the financial period		171,431	16,978

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 39 to 113.

1 Reporting entity

Emeco Holdings Limited (the '**Company**') is 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 2018 comprise the Company and its subsidiaries (together referred to as the '**Group**'). The Group is a for profit entity and primarily involved in the provision of safe, reliable and maintained earthmoving equipment solutions to customers in the earthmoving industry as well as the maintenance and remanufacturing of major components of heavy earthmoving equipment.

2 Basis of preparation

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (**AAS**) 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 Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for an accounting period that begins on or after 1 July 2017.

The consolidated financial statements were authorised for issue by the board of directors on 20 August 2018.

(b) Basis of measurement

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

- derivative financial instruments are measured at fair value;
- assets held for sale at fair value less costs of disposal; and
- 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.

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

(d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with the AASB 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. The impact of 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:

2 Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

Recognition of tax losses

In accordance with the Company's accounting policies for deferred taxes (refer note 3(o)), a deferred tax asset is recognised for unused tax losses only if it is probable that future taxable profits will be available to utilise these losses. This includes estimates and judgements about future profitability, capital structure and tax rates. Changes in these estimates and assumptions could impact on the amount and probability of unused tax losses and accordingly the recoverability of deferred tax assets. Due to the recent history of losses and cyclical nature of the industry, the company has only brought to account $67,932,000 of previously unrecognised Australian tax losses as a deferred tax asset of $20,380,000 onto the balance sheet at this time. Australian tax losses of $121,973,000 (gross) remain unrecognised and available to the Group.

Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use, in accordance with the Company's accounting policy note 3(h)(ii). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). The Company applies significant judgement and assumptions in determining the recoverable amount of assets. Changes in these assumptions could impact the recoverable amount and accordingly impairment.

Assets held for sale

In accordance with the Company's accounting policies for assets held for sale (refer note 3(i)), non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs of disposal. Fair value less costs of disposal includes estimates and judgements about the market value of these assets. Changes in these estimates and assumptions could impact on the carrying amount of these assets held for sale. The carrying amount of assets held for sale are set out note 15.

Business combinations

In accordance with the Company's accounting policies for business combinations (refer note 3(r)), assets and liabilities acquired under business combinations are recognised at their fair value at the date of acquisition. Estimates and assumptions have been made about the collectability of trade and other receivables and fair value of inventory and items of property, plant and equipment and provisions. Refer to note 36 for further information on business combinations and note 5(h) for details on determination of fair value.

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 Group controls an entity when it is exposed to, or has the rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which 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 translated 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 average exchange rates for the period.

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.

3 Significant accounting policies (continued)

(c) Financial instruments

(i) Non-derivative financial assets and financial liabilities recognition and derecognition

The Group initially recognises loans and receivables and deposits and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are recognised initially on the trade date.

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 in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

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

The Group has non-derivative financial assets being receivables.

(ii) Non-derivative financial assets - measurement

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.

(iii) Non-derivative financial liabilities - measurement

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 cost using the effective interest rate method unless the Group has applied fair value hedging, in which case amortised cost is adjusted to reflect the movement in the fair value of the underlying hedge item. This adjustment is recorded in the statement of profit and loss.

Other financial liabilities comprise loans and borrowings, debt securities issued, and trade and other payables.

(iv) 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 generally recognised in profit or loss unless designated as a hedging instrument.

3 Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Derivative financial instruments, including hedge accounting (continued)

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 hedging 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.

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 accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the non-financial item affects profit or loss. 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)
(v) Share capital

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

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, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Cost includes 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.

3 Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(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 ongoing 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 reassessments 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 and residual value 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 on a units of production method and charged on machine hours worked over their estimated useful life.

The estimated useful lives are as follows:

Buildings and leasehold improvements	15 years
Plant and equipment	3 – 15 years
Office equipment	3 – 10 years
Motor vehicles	5 years
Sundry plant	7 – 10 years

(e) Intangible assets

(i) Research and development

Expenditure on research activities is recognised in profit and loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit and loss as incurred. Subsequent to initial recognition, development expenditure is measured at costs less accumulated amortisation and any accumulated impairment losses.

(ii) Goodwill

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.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

3 Significant accounting policies (continued)

(e) Intangible assets (continued)

(iii) 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 any accumulated impairment losses.

(iv) Amortisation

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 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) 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 estimated costs necessary to make the sale.

(g) 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.

3 Significant accounting policies (continued)

(h) Impairment

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

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;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Group considers a decline of 20% to be significant and a period of nine months to be prolonged.

Financial assets measured at amortised cost
The Group considers evidence of impairment for these assets measured at both an individual asset and a collective level. All individually significant assets are individually assessed for specific impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's 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. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

(ii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets 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 cash generating units (**CGUs**).

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.

3 Significant accounting policies (continued)

(h) Impairment (continued)

(ii) Non-financial assets (continued)

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

(i) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs of disposal. Any impairment loss on a disposal group is allocated to the assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets which continue to be measured in accordance with the Group’s other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on re-measurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

(j) 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 has 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 related 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. Re-measurements are recognised in profit or loss in the period in which they arise.

(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.

3 Significant accounting policies (continued)

(j) Employee benefits (continued)

(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 Retention Incentive (**RI**) plan and the hybrid incentive plan (**EHIP**) allows certain management personnel to receive shares or rights of the Company. Under the RI, rights or shares granted to each RI participant vest to the employee after three years. The 2015 long term incentive plan (**LTIP**), included a performance condition included a performance hurdle based on relative total shareholder return (**TSR**). The peer group that the Company's TSR is measured against consists of 123 Companies (this number may change as a result of takeovers, mergers etc.) and includes 16 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. 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.

(b) A short term incentive (**STI**) plan allows the senior management team to receive, on board approval, cash or shares of the Company upon satisfying performance conditions. This is determined at the end of each financial year based on the executive's performance. The performance conditions related to KPIs include operating EBITDA, leverage, safety and personal goals. These benefits are accounted for in accordance with AASB 2 and AASB 119.

3 Significant accounting policies (continued)

(k) 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) Restructure provision

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.

(l) 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. Customers are billed monthly.

(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 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.

3 Significant accounting policies (continued)

(m) Leases

Leased assets
Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. On 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.

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

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

(n) Finance income and finance costs

The Group's finance income and finance costs include:
- interest income;
- interest expense;
- dividend income;
- discount on repurchased debt;
- the net gain or loss on financial assets at fair value through profit or loss;
- the foreign currency gain or loss on financial assets and liabilities;
- withholding tax;
- the net gain or loss on hedging instruments that are recognised in profit or loss; and
- amortisation of borrowing costs capitalised using the effective interest method.

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

3 Significant accounting policies (continued)

(o) Income tax

Income 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.

(i) Current tax

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

(ii) Deferred tax

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; or
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted at 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.

(iii) Tax exposures

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 entities acquired during the period were added to the tax consolidated group on the date of acquisition. The head entity within the tax consolidated group is Emeco Holdings Limited.

3 Significant accounting policies (continued)

(p) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

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.

(q) 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.

(r) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 Income Taxes and AASB 119 respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

4 New standards and interpretations not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2018. Those which may be relevant to the Group are set out below.

(i) AASB 16 Leases (2016)

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right of use asset representing its right-to-use the underlying leased asset and a lease liability representing its obligations to make lease payments. AASB 16 applies to annual reporting periods beginning on or after 1 January 2019 and replaces AASB 117 *Leases* and the related interpretations.

As lessor accounting will remain largely unaffected on application of AASB 16, any impact on the Group's financial statements will arise from operating commitments relating to leases on properties and vehicles. At reporting date, the Group has commitments of $23,810,000 relating to non-cancellable operating leases. The application of AASB 16 is expected to change the expense profile relating to operating leases with the following effect on the financial statements:

- Increase in both total assets and total liabilities;
- Replacement of operating expense by amortisation and interest expense in the statement of profit or loss and other comprehensive income; and
- Reclassification of cash flows relating to lease repayments from operating to financing activities.

The Group continues to assess the potential impact when reviewing new contracts that will fall under this standard.

(ii) AASB 15 Revenue from Contracts with Customers (2015)

The new standard replaces AASB 118 which covers the revenues arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. In reviewing the types of contracts held with customers, management does not believe the changes to the standard will have a material impact on the financial performance and financial position of the Group. The Group's rental customer contracts constitute leases and will continue to be accounted for in line with lessor accounting. Management are in the process of assessing the impact of this standard on the maintenance services revenue stream, however it's expected that there will not be a material change in how this is accounted for.

(iii) AASB 9 Financial Instruments (2014)

AASB 9 will replace AASB 139: Financial Instruments: Recognition and Measurement. The key changes that may affect the Group on initial application of AASB 9 and associated amending Standards include:

- simplifying the general classifications of financial assets into those carried at amortised cost and those carried at fair value;
- permitting entities to irrevocably elect on initial recognition to present gains and losses on an equity instrument that is not held for trading in other comprehensive income (**OCI**);
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in OCI, except when it would create an 'accounting mismatch';
- introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and
- requiring impairment of financial assets carried at amortised cost based on an expected loss approach.

In assessing the anticipated impact of AASB 9, management has reviewed historical losses on financial assets carried at amortised cost. Based on this analysis, management does not expect the change in the standard to have a material impact on the financial position of the Group.

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.

(a) 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 property, plant and equipment has been determined with reference to an independent external valuation in addition to comparisons to similar assets currently on market.

(b) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, are estimated as the present value of future cash flows, discounted at the market rate of interest at the measurement date. Short term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Fair value is determined at initial recognition and, for disclosure purposes, at each annual and interim reporting date.

(c) 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.

(d) Other non-derivative financial liabilities

Other non-derivative financial liabilities are measured at fair value at initial recognition and for disclosure purposes, at each annual and interim reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(e) Share based payment transactions

The fair value of employee share options, management incentive plan shares, long term incentive plan, retention incentive plan and hybrid 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 market price at purchase date.

5 Determination of fair values (continued)

(f) 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.

(g) Assets held for sale

The fair value of assets designated as held for sale are determined with reference to an independent external valuation, market demand and costs of disposal.

(h) Business combinations

The fair value of consideration supplied for the acquisition of entities has been determined using the market price of the Company’s listed share price. The methodology has also been applied to the valuation of investments acquired though the business combination. The fair value of property, plant and equipment has been determined with reference to an independent external valuation in addition to comparisons to similar assets currently on market. The fair value of inventory acquired has been valued determined with reference to the most recent purchase of similar items from external suppliers. The collectability of trade and other receivables has been assessed and compared to subsequent receipt of payment in determining the fair value of this asset class.

6 Financial instruments

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

- credit risk;
- liquidity risk; and
- 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.

Risk management framework
The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board of directors has established the audit and risk management 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, aims 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.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument or financial asset 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	
		2018	2017
	Note	$'000	$'000
Trade receivables	18	85,772	87,821
Other receivables (including VAT/GST)	18	4,947	26,151
Cash and cash equivalents	17	171,431	16,978
		262,150	130,950

6 Financial instruments (continued)

Credit risk (continued)

Trade and other receivables

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

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 assessed on a case by case basis and where possible, prepayment 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 $700,000,000 (2017: $700,000,000). The Australian business held insurance for the entire financial year ended 30 June 2018.

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 2018 the Group's doubtful debts provision for continuing and discontinued operations was $352,000 (2017: $200,000). As at 30 June 2018 the Group recognised bad debt write offs for continuing and discontinued operations for a total amount of $339,000 (2017: $24,000).

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 analysis of the underlying customers' credit ratings.

6 Financial instruments (continued)

Credit risk (continued)

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

	Consolidated		Consolidated	
	Gross 2018 $'000	Impairment provision 2018 $'000	Gross 2017 $'000	Impairment provision 2017 $'000
Australia	85,772	(352)	78,794	(200)
North America	-	-	526	-
South America	-	-	8,501	-
	85,772	(352)	87,821	(200)

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

	Consolidated Carrying amount	
	2018 $'000	2017 $'000
Insured	34,282	27,529
Blue chip (including subsidiaries)	43,190	36,595
Other security	-	-
Uninsured	8,300	23,697
	85,772	87,821

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

	Consolidated		Consolidated	
	Gross 2018 $'000	Impairment 2018 $'000	Gross 2017 $'000	Impairment 2017 $'000
Not past due	75,150	-	45,420	-
Past due 0-30 days	8,328	-	17,890	-
Past due 31-60 days	1,466	-	13,112	-
Past due 61 days	828	(352)	11,399	(200)
	85,772	(352)	87,821	(200)

6 Financial instruments (continued)
Credit risk (continued)

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

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Balance at 1 July	200	1,090
Bad debt written off	(339)	(24)
Change in provision for doubtful debts	491	(866)
Balance at 30 June	352	200

Cash
The Group held cash and cash equivalents of $171,431,000 at 30 June 2018 (2017: $16,978,000), 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-.

Collateral
Collateral is held for customers that are assessed to be a higher risk. At 30 June 2018 the Group held $116,000 of bank guarantees (2017: $116,000) and $Nil of prepayments (2017: $Nil).

Guarantees
Financial guarantees are generally only provided to wholly owned subsidiaries or when entering into a premise rental agreement or performance bonds for completion of contract. Details of outstanding guarantees are provided in note 29. At 30 June 2018 $3,531,000 guarantees were outstanding (2017: $4,172,000).

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.

6 Financial instruments (continued)

Liquidity risk (continued)

The Group has issued secured fixed interest notes to the value of US$360,818,000 which matures on 30 March 2022. The nominal fixed interest rate is 9.25%. These notes will remain fully drawn until maturity. Of the notes on issue, the Group holds US$4,890,000 which has been netted off against the total notes outstanding.

The Group has an A$40,000,000 facility that matures in March 2020 which has two sub facilities consisting of a Revolving Cash Advance Facility (**RCF**) of A$35,000,000 and a Bank Guarantee Facility of A$5,000,000. The bank guarantee facility was reduced from A$30,000,000 during the period to reduce the holding costs of the unrequired portion of this facility. The bank guarantee facility attracts a fee of 2.75% on the unutilised portion of the facility and a fee of 5.5% on the outstanding balance of guarantees on issue. The nominal interest rate on the RCF is equal to the aggregate of the bank bill swap rate (**BBSY**) plus a margin of between 5% and 7% dependant on the calculated leverage ratio. The facility also attracts an undrawn line fee of between 2.5% and 3.5% dependant on the calculated leverage ratio on the undrawn available balance of the facility. The facilities require the Group to maintain a collateral coverage ratio greater than 3.0x and a fixed charge coverage ratio greater than 1.2x. At year end the Group had drawn $Nil of the RCF but had utilised $3,531,000 of the bank guarantee facility.

The Group has a facility agreement comprising a credit card facility with a limit of A$150,000 and is secured via a cash cover account.

The Group has finance lease facilities totalling A$1,155,000 (2017: A$9,801,000) which have various maturities up to November 2020.

The Group has financed its insurance payments with A$1,857,000 remaining at year end which matures in January 2019.

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

6 Financial instruments (continued)

Liquidity risk (continued)

Consolidated 30 June 2018	Carrying amount $'000	Contract-ual 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 notes issue	465,050	667,174	22,273	22,273	44,545	578,083	-
Finance lease liabilities	1,155	1,183	1,003	34	-	-	-
Insurance financing	1,857	1,881	1,646	235	-	-	-
Trade and other payables	31,882	31,882	31,882	-	-	-	-
Liabilities directly associated with assets classified as held for sale	-	-	-	-	-	-	-
	499,944	702,120	56,804	22,542	44,545	578,083	-
Derivative financial asset/(liability)							
Cross currency interest rate swaps used for hedging asset/(liability)	(2,157)	2,329	(730)	(483)	(1,295)	4,837	-
	(2,157)	2,329	(730)	(483)	(1,295)	4,837	-

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

Consolidated 30 June 2017	Carrying amount $'000	Contract-ual 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 notes issue	443,284	676,734	14,267	21,401	42,802	598,264	-
Finance lease liabilities	9,801	10,458	2,426	2,609	3,207	2,216	-
Insurance financing	1,584	1,584	1,584	-	-	-	-
Trade and other payables	24,491	24,491	24,491	-	-	-	-
Liabilities directly associated with assets classified as held for sale	449	449	449	-	-	-	-
	479,609	713,716	43,217	24,010	46,009	600,480	-
Derivative financial asset/(liability)							
Cross currency interest rate swaps used for hedging asset/(liability)	(4,351)	(12,275)	(8,363)	(832)	(2,323)	(757)	-
	(4,351)	(12,275)	(8,363)	(832)	(2,323)	(757)	-

The gross inflows/(outflows) disclosed in the previous tables represents 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. cross currency interest rate swaps.

6 Financial instruments (continued)

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

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

Currency risk
The functional currency of the Group is the Australian dollar (**AUD).** The Group holds borrowings in United States Dollars (**USD**) for which currency risk exists.

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

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.

In March 2017 the Group cancelled US$282,720,000 of notes in the 144A high yield market and were replaced with US$360,818,000 new notes of which US$4,890,000 were held by the Group. The net exposure of the notes to the Group at 30 June 2018 is US$355,927,000 of which US$230,000,000 face value of the annual coupon has been hedged and US$100,000,000 face value of the principal has been hedged to Australian Dollars. As derivatives have been entered into, hedge accounting has been applied to these instruments. At 30 June 2018, the Group was unhedged US$125,927,000 face value of the annual coupon and US$255,927,000 face value of the net principal outstanding.

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 2018		30 June 2017	
	USD $'000	CAD $'000	USD $'000	CAD $'000
Cash	4,220	-	3,727	15
Secured notes issued [1]	(355,927)	-	(355,927)	-
Gross balance sheet exposure	(351,707)	-	(352,200)	15
Cross currency interest rate swap to hedge the secured notes issued	100,000	-	100,000	-
	100,000	-	100,000	-
Net exposure	(251,707)	-	(252,200)	15

[1] Net USD exposure of US$355,927,000 (2017: US$355,927,000) in an AUD denominated entity. Balance is net of notes held by the Group.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
CAD	0.9842	1.0102	0.9771	0.9990
USD	0.7753	0.7554	0.7391	0.7692
EURO	0.6499	0.7448	0.6344	0.6730
CLP	484.42	502.65	478.90	510.14
GBP	0.5761	0.5911	0.5634	0.5913

6 Financial instruments (continued)
Market risk (continued)

Sensitivity analysis
A weakening of the Australian dollar, as indicated below, against the following currencies at 30 June 2018 would have affected the measurement of financial instruments denominated in a foreign currency and 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 2017, as indicated below:

	Consolidated			
	Strengthening		Weakening	
	Equity $'000	Profit or loss $'000	Equity $'000	Profit or loss $'000
30 June 2018				
USD (10 percent movement)	(5,957)	21,672	6,430	(26,488)
30 June 2017				
USD (10 percent movement)	(10,747)	20,430	5,426	(24,970)

Interest rate risk
In accordance with the board's policy the Group is required to maintain an appropriate exposure to changes in interest rates on borrowings on a fixed rate basis, taking into account assets with exposure to changes in interest rates. This is achieved by entering into cross currency interest rate swaps and the issue of fixed interest notes.

6 Financial instruments (continued)

Market risk (continued)

Profile

At the end of the reporting date the interest rate profile of the Group's interest bearing financial instruments as reported to the management of the Group was:

		Consolidated	
	Note	2018 $'000	2017 $'000
Variable rate instruments:			
Cash at bank	17	171,431	16,978
		171,431	16,978
Fixed rate instruments:			
Effective interest rate swaps to hedge interest rate risk		(2,157)	4,015
Interest bearing liabilities (notes)	24	(481,569)	(462,724)
Interest bearing finance leases	24	(1,155)	(9,801)
Insurance financing	24	(1,857)	(1,584)
		(486,738)	(470,094)

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. These instruments were disposed of in September 2016.

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. These instruments were disposed of in September 2016.

The cross currency interest rate swaps (hedging instrument) are accounted for as cash flow 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 of the USD fixed rate interest payments on the debt principal amount of the Company's outstanding debt and the foreign currency remeasurement risk arising on the principal balance every six months on the Company's outstanding debt.

6 Financial instruments (continued)
Market risk (continued)

Cash flow sensitivity analysis for fixed rate instruments
A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity 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 2017.

	Equity		Equity	
Cash flow hedges	100bp increase BBSW $'000	100bp decrease BBSW $'000	100bp increase Libor $'000	100bp decrease Libor $'000
30 June 2018				
Fixed rate foreign currency instruments	6,417	(6,662)	(6,469)	6,722
Cash flow sensitivity (net)	6,417	(6,662)	(6,469)	6,722
30 June 2017				
Fixed rate foreign currency instruments	8,564	(8,970)	(8,630)	9,044
Cash flow sensitivity (net)	8,564	(8,970)	(8,630)	9,044

Detailed below is the profit and loss impact of cash flow hedges during the year.

	Profit or loss	
Financial instrument	2018 $'000	2017 $'000
Cross currency interest rate swap		
- Swap	-	1,349
- Hedged item (debt)	-	-
Net profit and loss impact before tax	-	1,349

During the year the hedging relationships were highly effective and no ineffectiveness was recognised in the profit or loss for the year. The hedge relationship is expected to be highly effective throughout the life of the hedge and is not expected to impact the profit and loss other than the transfer of the hedge reserve to profit and loss as the hedge matures.

6 Financial instruments (continued)
Market risk (continued)

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 excluding margins, and were as follows:

	2018			2017		
Derivatives	0.1%	-	2.3%	0.1%	-	2.3%
Loans and borrowings	0.1%	-	3.5%	0.1%	-	3.5%
Leases	4.5%	-	8.1%	4.5%	-	8.1%
USD notes - secured	9.3%	-	9.3%	9.3%	-	9.9%

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

	Note	30 June 2018 Carrying amount $'000	30 June 2018 Fair value $'000	30 June 2017 Carrying amount $'000	30 June 2017 Fair value $'000
Assets carried at fair value					
Interest rate swaps used for hedging	19	5,709	5,709	4,015	4,015
		5,709	5,709	4,015	4,015
Assets carried at amortised cost					
Receivables	18	90,367	90,367	113,535	113,535
Cash and cash equivalents	17	171,431	171,431	16,978	16,978
		261,798	261,798	130,513	130,513
Liabilities carried at fair value					
Interest rate swaps used for hedging	19	7,866	7,866	(8,366)	(8,366)
		7,866	7,866	(8,366)	(8,366)
Liabilities carried at amortised cost					
Secured bank loans	24	707	-	630	-
Secured notes issue (1)	24	(465,050)	(481,569)	(443,284)	(462,724)
Insurance financing	24	(1,857)	(1,857)	(1,584)	(1,584)
Finance lease liabilities	24	(1,155)	(1,183)	(9,801)	(10,458)
Trade and other payables	23	(80,194)	(80,194)	(82,545)	(82,545)
		(547,549)	(564,803)	(536,584)	(557,311)

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

All fair values above have been determined with the use of level 3 inputs which are unobservable. The basis for determining fair values is disclosed in note 5.

6 Financial instruments (continued)
Market risk (continued)

Fair value hierarchy
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 with the exception of certain investments in shares that are categorised at level 1.

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.

Historically, the board maintained a balance between higher returns possible with higher levels of borrowings and the security afforded by a sound capital position. However, given current market condition, the board seeks to increase levels of cash held to maintain a strong capital position.

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 11.7% (2017: (22.6%)). This includes non-recurring items of $33,500,000 (2017: $97,800,000) after tax. Had the non-recurring items not been included in the Group EBIT return on capital for the year would have been 19.6% (2017: 3.2%).

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

	Consolidated	
	2018	**2017**
	$'000	**$'000**
EBIT (continuing and discontinued operations)	49,649	(85,800)
Average invested capital	424,766	379,396
EBIT return on capital at 30 June	11.7%	(22.6%)

7 Other income

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Net profit/(loss) on sale of non current assets (1)	755	214
Sundry income (2)	1,496	33
	2,251	247

(1) Included in net profit on the sale of non-current assets is the sale of rental equipment, including those non-current assets classified as held for sale. The gross proceeds from the sale of this equipment in 2018 was $22,726,000 (2017: $93,518,000 which included $64,430,000 of non-cash assets sales).
(2) Included in sundry income are fees charged on overdue accounts, bad debts recovered, and receipts from trade receivables not recognised at the point of acquisition of the Orionstone and Andy's Earthmovers businesses.

8 Loss before income tax expense for continuing operations

		Consolidated	
	Note	2018 $'000	2017 $'000
Profit before income tax expense has been arrived at after charging/(crediting) the following items:			
Impairment of tangible assets:			
- inventory	20	14	157
- property, plant and equipment		11,136	9,280
- reversal of impairment on property, plant and equipment		-	(1,231)
		11,150	8,206
Employee expenses:			
- salaries and wages, superannuation, employee share plan		35,416	20,240
Other expenses:			
- bad debts		339	24
- doubtful debts/(reversal)		36	163
- insurance		2,489	1,394
- motor vehicles		2,747	1,554
- rental expense		4,132	2,778
- safety expenses		832	564
- travel and subsistence expense		3,687	2,775
- telecommunications		1,313	1,015
- workshop consumables, tooling and labour		1,517	1,378
- restructuring		3,976	1,101
- corporate development expenses		122	687
- consulting fees		6,420	3,332
- employee share plan expenses		10,816	6,045
- other expenses		7,888	6,971
		46,314	29,781
Depreciation of:			
- buildings		221	368
- plant and equipment - owned		65,743	66,666
- plant and equipment - leased		1,613	1,744
- office equipment		225	226
- motor vehicles		556	674
- leasehold improvements		210	245
- sundry plant		334	684
less discontinuing operations depreciation expense	14	(58)	(15,860)
		68,844	54,747

8 Loss before income tax expense for continuing operations (continued)

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Finance costs:		
- interest expense	44,977	42,399
- witholding tax expense	-	767
- amortisation of debt establishment costs using effective interest rate	4,117	1,877
- other facility costs	1,817	1,622
Net finance costs	50,911	46,665
Finance income:		
- interest income	(492)	(37)
- hedge gains [1]	-	(14,058)
Net finance income	(492)	(14,095)
Foreign exchange (gain)/loss:		
Net realised foreign exchange (gain)/loss	(1,110)	68,936
Net unrealised foreign exchange (gain)/loss	13,727	(58,907)
Net foreign exchange (gain)/loss	12,617	10,029

(1) In September 2016, the Group closed out US$71,500,000 face value of cross currency interest rate swaps which generated a cash inflow of A$15,206,000 (US$11,794,000). The balance of the hedge reserve was transferred to the consolidated statement of profit or loss and other comprehensive income during the period resulting in a net gain of $14,058,000.

8b Business acquisition and restructuring transaction expenses

In March 2017, the Company completed a transaction that involved the following:

- acquisition of Andy's Earthmovers (Asia Pacific) Pty Ltd (**Andy's**) and Orionstone Holdings Pty Ltd (**Orionstone**). Refer to note 36 for further details;
- cancellation of the existing Emeco 144A notes, Andy's long term debt and Orionstone long term debt obligations in exchange for new notes for the value of 80% of the face value of the original debt and 20% as shares in Emeco. Refer to note 24 for further details;
- refinance of its asset backed loan facility. Refer to note 24 for further details; and
- rights issue of $20,000,000.

Together referred to as (The **Transaction**)

In November 2017, the Company acquired Force Equipment Pty Ltd (**Force**), refer to note 36 for further details. Subsequent to the end of the reporting period, the Company acquired Matilda Equipment Holdings Pty Ltd and its subsidiary Matilda Equipment Pty Ltd (**Matilda**). Refer to note 36 for further details.

The below table details the items recognised through the consolidated statement of profit or loss and other comprehensive income:

	Consolidated	
	2018	2017
	$'000	$'000
Business acquisition and restructuring transaction expenses		
- cost of shares issued to Black Diamond Capital Management LLC (1)	-	10,253
- acquisition expenses (2)	3,836	14,445
- write off facility costs (2)	-	5,778
- impairment of goodwill (3)	-	77,880
- discount on refinanced debt (4)	-	(20,359)
Net financial costs	3,836	87,997

(1) 123,526,158 shares were provided to Black Diamond Capital Management LLC in consideration for the successful completion of the transaction. The share price at 31 March 2017 has been used in determining the cost of this transaction.

(2) The Company incurred $1,912,000 in costs relating to the acquisition of Force and $1,924,000 in relation to Matilda, which subsequently settled in July 2018. In 2017 the company incurred $35,043,000 in costs related to the Transaction of which $14,445,000 has been recognised as acquisition costs and expensed through the consolidated statement of profit or loss and other comprehensive income. $20,598,000 of this expenditure related to the cancellation of the 144A notes and ABL facility and the issuance of the new notes and RCF facility and have been capitalised. The remaining balance of previously capitalised borrowing costs related to the cancelled 144A notes and ABL facility have been expensed through the consolidated statement of profit or loss and other comprehensive income amounting to $5,778,000. Refer to note 24 for further information.

(3) Goodwill of $77,880,000 was recognised on the acquisition of Andy's and Orionstone (refer to note 36 for details of the business combination) and allocated to the Australia CGU. Impairment testing conducted at 30 June 2017 on the Australia CGU resulted in an impairment loss of $77,880,000 which was allocated against the goodwill of the Australia CGU. Refer to note 22 for further information on the impairment testing process.

(4) The long term debt (excluding finance leases) refinanced via the acquisition of Andy's ($66,558,000) and Orionstone ($137,359,000) in addition to the Group's US$282,720,000 / A$365,779,000 144A notes were exchanged for newly issued Emeco new notes to the value of US$360,818,000 / A$469,082,000 and 966,563,209 ordinary shares in the Company which were issued at fair value resulting in a gain of $20,359,000.

9 Auditor’s remuneration

	Consolidated 2018 $	Consolidated 2017 $
Audit services		
Auditors of the Company		
Deloitte Touche Tohmatsu Australia:		
- audit and review of financial reports	451,000	540,965
Overseas Deloitte Firms:		
- other assurance services	15,915	11,000
	466,915	551,965
Other services		
Auditors of the Company		
Deloitte Touche Tohmatsu Australia:		
- taxation services	170,884	146,160
- independent services	538,664	388,890
Overseas Deloitte Firms:		
- taxation services	15,259	35,033
- account preparation	-	3,741
	724,807	573,824
	1,191,722	1,125,789

10 Taxes

a. Recognition in the income statement

		Consolidated	
		2018	2017
	Note	$'000	$'000
Deferred tax expense/(benefit):			
Origination and reversal of temporary differences of current year		(18,707)	14,672
	12	(18,707)	14,672
Tax expense/(benefit)		(18,707)	14,672
Tax expense/(benefit) from continuing operations		(18,707)	14,672
Tax expense/(benefit) from discontinued operations	14	-	5,150
Total tax expense/(benefit)		(18,707)	19,822

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

	Consolidated	
	2018	2017
	$'000	$'000
Share issue costs	(1,758)	-
Cashflow hedges	658	(1,056)
Foreign currency translation reserve	(1,588)	(119)
	(2,688)	(1,175)

10 Taxes (continued)

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

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Prima facie tax benefit calculated at 30% on net profit	(2,200)	(48,192)
Increase/(decrease) in income tax expense due to:		
Effect on tax rate in foreign jurisdictions	(35)	468
Non-deductible interest	-	499
Non-deductible foreign taxes	-	232
Australian tax losses not previously recognised	(17,788)	28,256
Foreign tax losses not previously recognised, now recouped	(1,743)	12,835
Non-deductible acquisition costs	1,151	7,409
Other non-deductible expenses	10	99
Goodwill impairment	-	23,364
Non-assessable debt forgiveness gain	-	(5,148)
Under/(over) provided in prior years	1,898	-
Tax expense/(benefit)	(18,707)	19,822

11 Current tax assets and liabilities

The current tax asset for the Group of $Nil (2017: $Nil) represents income taxes recoverable in respect of prior periods and that arise from payment of taxes in excess of the amount due to the relevant tax authority.

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	
	2018	2017	2018	2017	2018	2017
Consolidated	$'000	$'000	$'000	$'000	$'000	$'000
Property, plant and equipment	-	-	(8,540)	(9,097)	(8,540)	(9,097)
Receivables	3,336	3,363	-	(1,130)	3,336	2,233
Other financial assets	-	-	(324)	-	(324)	-
Inventories	-	-	(2,090)	(67)	(2,090)	(67)
Payables	723	1,971	-	-	723	1,971
Derivatives - hedge payable	-	-	-	-	-	-
Derivatives - hedge receivable	647	1,305	-	-	647	1,305
Interest bearing loans and borrowings	4,782	-	-	(891)	4,782	(891)
Employee benefits	482	1,418	-	-	482	1,418
Unearned revenue	-	-	-	-	-	-
Equity - capital raising costs	1,704	-	-	-	1,704	-
Provisions	1,550	311	-	-	1,550	311
Employee share costs	-	-	(473)	(3,718)	(473)	(3,718)
Tax losses carried forward	20,380	6,535	-	-	20,380	6,535
Tax assets/(liabilities)	33,604	14,903	(11,427)	(14,903)	22,177	-
Set off of tax	(11,427)	(14,903)	11,427	14,903	-	-
Net tax assets/(liabilities)	22,177	-	-	-	22,177	-

Movement in deferred tax balances

	Consolidated						
	Balance 1 July 17 $'000	Balances acquired 30 Nov 17 $'000	Recognised in profit or loss $'000	Recognised directly in equity $'000	Recognised in other comprehensive income $'000	Included in discontinued operations (note 14) $'000	Balance 30 June 18 $'000
Property, plant and equipment	(9,097)	(94)	651	-	-	-	(8,540)
Other financial assets	-	-	(324)	-	-	-	(324)
Receivables	2,233	35	1,067	-	-	-	3,335
Inventories	(67)	(11)	(2,012)	-	-	-	(2,090)
Payables	1,971	20	(1,267)	-	-	-	724
Derivatives - hedge payable	-	-	-	-	-	-	-
Derivatives - hedge receivable	1,305	-	-	(658)	-	-	647
Interest bearing loans and borrowings	(891)	-	4,085	1,588	-	-	4,782
Employee benefits	1,418	831	(1,767)	-	-	-	482
Equity - capital raising costs	-	-	(54)	1,758	-	-	1,704
Unearned revenue	-	-	-	-	-	-	-
Provisions	311	-	1,239	-	-	-	1,550
Employee share costs	(3,718)	-	3,245	-	-	-	(473)
Tax losses carried forward	6,535	-	13,845	-	-	-	20,380
	-	781	18,707	2,688	-	-	22,177

12 Deferred tax assets and liabilities (continued)

Movement in deferred tax balances

	Consolidated						
	Balance 1 July 16 $'000	Balances acquired 31 March 17 $'000	Recognised in profit or loss $'000	Recognised directly in equity $'000	Recognised in other comprehensive income $'000	Included in discontinued operations (note 14) $'000	Balance 30 June 17 $'000
Property, plant and equipment	(23,555)	(6,050)	7,175	-	-	13,333	(9,097)
Receivables	(5,192)	3,530	3,975	-	-	(80)	2,233
Inventories	(849)	(19)	374	-	-	427	(67)
Payables	1,546	107	359	-	-	(41)	1,971
Derivatives - hedge payable	-	-	-	-	-	-	-
Derivatives - hedge receivable	(5,382)	-	87	6,600	-	-	1,305
Interest bearing loans and borrowings	25,323	1,197	(21,986)	(5,425)	-	-	(891)
Employee benefits	980	-	472	-	-	(34)	1,418
Equity - capital raising costs	363	-	(363)	-	-	-	-
Unearned revenue	-	-	(575)	-	-	575	-
Provisions	487	375	(551)	-	-	-	311
Employee share costs	-	-	(3,718)	-	-	-	(3,718)
Tax losses carried forward	25,786	-	79	-	-	(19,330)	6,535
	19,507	(860)	(14,672)	1,175	-	(5,150)	-

Unrecognised deferred tax assets

	Consolidated	
	2018 $'000	2017 $'000
The following deferred tax assets have not been brought to account as assets:		
Tax losses	118,838	132,532

Unutilised tax losses are in Australia, Chile, Indonesia, the United Kingdom, United States and Europe. $36,592,000 of the unrecognised deferred tax asset is related to the losses in the Australian tax jurisdiction, which do not expire. The remaining losses are not expected to be utilised by the Group.

13 Capital and reserves

	Consolidated 2018 $'000	Consolidated 2017 $'000
Share capital		
3,178,858,997 (2017: 2,436,860,480) ordinary shares, fully paid	991,111	825,004
Acquisition reserve	(75,887)	(75,887)
	915,224	749,117

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.

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2017	2,436,860,480		825,004
Issue of shares for rights issue	8 November 2017	320,100,520	$0.210	67,221
Issue of shares for rights issue	24 November 2017	60,661,191	$0.210	12,739
Less: share issue costs, net of deferred tax				(1,983)
Issue of shares for rights issue	8 May 2018	309,604,949	$0.250	77,401
Issue of shares for rights issue	24 May 2018	51,631,857	$0.250	12,908
Less: share issue costs, net of deferred tax				(2,179)
Balance	**30 June 2018**	**3,178,858,997**		**991,111**
Less: treasury shares		135,081,471		
Issued capital		**3,043,777,526**		

13 Capital and reserves (continued)

Reserve for own shares [1]
The reserve for 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 MIP due to employees not meeting the service vesting requirement will remain in the reserve. As at 30 June 2018 the Company held 135,081,471 treasury shares (2017: 210,690,767) in satisfaction of the employee share plans.

Foreign currency translation reserve [1]
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Hedging reserve [1]
The hedging reserve comprises the effective portion of the cumulative net change in fair value of hedging instruments used in cash flow hedges pending subsequent recognition of hedged cash flows.

Share based payment reserve [1]
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(j)(v)).

Dividends [1]
No dividends were paid or declared during the year (2017: $Nil) or prior to the release of this report.

Franking account

	The Company	
	2018	**2017**
	$'000	**$'000**
Dividend franking account		
30% franking credits available to shareholders of		
Emeco Holdings Limited for subsequent financial years	65,146	46,215

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 $Nil (2017: $Nil). 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 $65,146,000 (2017: $46,215,000) franking credits.

(1) Refer to Consolidated Statement of Changes in Equity.

14 Discontinued operations

In April 2018, Emeco entered into an agreement to transfer ownership of Emeco Canada Limited to its local partner, HMER to enable the Company to exit the Canadian business. The FY17 comparative information has been restated.

In June 2017 the board resolved to exit the Chilean business after a strategic review of the operations. The business is currently in the process of being wound down and is not expected to materially contribute to the future earnings of the Group.

	2018			2017		
	Canada $'000	Chile $'000	Total $'000	Canada $'000	Chile $'000	Total $'000
Profits/(losses) of discontinued operations						
Revenue	-	4,243	4,243	9,000	27,971	36,971
Other income	2,946	-	2,946	1,631	333	1,964
Direct costs/reversal of accrued costs	1,090	(4,010)	(2,920)	1,310	(13,686)	(12,376)
Profit on sale of assets	-	1	1	290	86	376
Impairment of tangible assets (or reversal of)						
- Inventories	-	-	-	(229)	(6,617)	(6,846)
- Property, plant and equipment	2,350	-	2,350	(1,717)	(8,614)	(10,331)
Other expenses	(341)	(80)	(421)	(1,030)	(7,057)	(8,087)
Employee expenses (or reversal of)	50	-	50	(449)	(621)	(1,070)
Depreciation	(58)	-	(58)	(5,973)	(9,887)	(15,860)
Finance income	9	-	9	17	280	297
Finance costs	(119)	(25)	(144)	(1,828)	(1,354)	(3,182)
Income tax expense	-	-	-	(2)	(5,150)	(5,152)
Profit/(loss) for the year	5,927	129	6,056	1,020	(24,316)	(23,296)

The profit from discontinued operations of $6,056,000 (2017: loss of $23,296,000) is attributable entirely to the owners of the Company.

	2018 $'000	2017 $'000
Cash flows from/(used in) discontinued operation		
Net cash used in operating activities	(6,194)	25,554
Net cash from investing activities	3,771	26,296
Net cash from financing activities	(810)	(3,145)
Net cash from/(used in) discontinued operation	(3,233)	48,705

15 Disposal groups and non-current assets held for sale

During the year $14,925,000 of non-current assets were transferred from property, plant and equipment into non-current assets held for sale. Assets previously classified and classified during the period as held for sale were further impaired by $11,136,000 to their fair value less cost to sell based on market prices of similar equipment.

As at 30 June 2018, the non-current assets held for sale comprised assets of $8,007,000 (2017: $26,421,000). These relate to plant and equipment in Australia and one piece of equipment in Chile. Level 2 fair value hierarchy has been used in determining the fair value with reference to an independent valuation utilising observable market valuations. The Group is actively marketing these assets and they are expected to be disposed of within 12 months.

	2018 $'000	2017 $'000
Assets classified as held for sale		
Property, plant and equipment - continuing operations	7,936	25,834
Property, plant and equipment - discontinuing operations	71	587
	8,007	26,421
Liabilities directly associated with assets classified as held for sale		
Continuing operations	-	(449)
	-	(449)
Net assets classified as held for sale	8,007	25,972

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

16 Segment reporting

The Group has four (2017: three) reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different operational strategies for each geographic region. For each of the strategic business units, the managing director and board of directors review internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

Australian Rental	Provides a wide range of earthmoving equipment to customers in Australia.
Australian Workshops	Provides maintenance services to customers in Australia.
Canada (discontinued)	Provides a wide range of maintenance services to customers who are predominately within Canada. This segment was discontinued in April 2018.
Chile (discontinued)	Provides a wide range of earthmoving equipment and maintenance services to customers in Chile. This segment was discontinued in June 2017.

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

16 Segment reporting (continued)

Information about reportable segments 2018

	Australian Rental	Australian Workshops	Canada (discont'd)	Chile (discont'd)	Total
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2018					
Segment revenue	355,231	42,773	-	4,243	402,247
Elimination of intersegment revenue	-	(17,012)	-	-	(17,012)
Revenue from external customers	**355,231**	**25,761**	**-**	**4,243**	**385,235**
Other income	1,981	48	2,956	-	4,986
Impairment of tangible assets	(11,150)	-	2,350	-	(8,800)
Segment earnings before interest, tax, depreciation and amortisation	**149,061**	**2,656**	**6,105**	**154**	**157,976**
Impairment of goodwill	-	-	-	-	-
Depreciation and amortisation	(68,515)	(329)	(58)	-	(68,902)
Segment result (EBIT)	**80,546**	**2,327**	**6,047**	**154**	**89,074**
Corporate overheads					(33,234)
EBIT					**55,840**
Finance income/(expense) (net)					(50,554)
Foreign exchange movements					(12,617)
Net loss before tax					**(7,331)**
Tax benefit/(expense)					18,707
Net profit/(loss) after tax					**11,376**
Total assets for reportable segments	603,145	29,634	-	501	633,280
Unallocated assets					82,772
Total group assets					716,052
Net capital expenditure	**57,612**	**162**	**-**	**-**	**57,774**
Total liabilities for reportable segments	64,290	12,314	-	662	77,266
Unallocated liabilities					485,304
Total group liabilities					562,570

16 Segment reporting (continued)

Information about reportable segments 2017

	Australian Rental	Australian Workshops	Canada (discont'd)	Chile (discont'd)	Total
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2017					
Segment revenue	196,043	-	9,000	27,971	233,014
Elimination of intersegment revenue	-	-	-	-	-
Revenue from external customers	**196,043**	**-**	**9,000**	**27,971**	**233,014**
Other Income	581	-	1,632	347	2,560
Impairment of tangible assets	(8,206)	-	(1,946)	(15,231)	(25,383)
Segment earnings before interest, tax, depreciation and amortisation	**50,299**	**-**	**8,924**	**(8,205)**	**51,018**
Impairment of goodwill	(77,880)	-	-	-	(77,880)
Depreciation and amortisation	(55,573)	-	(5,974)	(9,887)	(71,434)
Segment result (EBIT)	(83,154)	-	2,950	(18,092)	(98,296)
Corporate overheads					(16,861)
EBIT					**(115,157)**
Finance income/(expense) (net)					(35,403)
Foreign exchange movements					(10,079)
Net loss before tax					**(160,639)**
Tax benefit/(expense)					(19,822)
Net profit/(loss) after tax					**(180,463)**
Total assets for reportable segments	499,614	-	4,038	12,854	516,506
Unallocated assets					4,173
Total group assets					520,679
Net capital expenditure	**(27,962)**	**-**	**10,852**	**15,551**	**(1,559)**
Total liabilities for reportable segments	60,591	-	6,081	16,405	83,077
Unallocated liabilities					469,609
Total group liabilities					552,686

17 Cash and cash equivalents

	Consolidated	
	2018	2017
	$'000	$'000
Cash at bank	171,431	16,978

18 Trade and other receivables

	Consolidated	
	2018	2017
	$'000	$'000
Current		
Trade receivables	85,772	87,821
Less: Impairment of receivables	(352)	(200)
	85,420	87,621
VAT/GST receivable	2,484	3,805
Other receivables	2,463	22,109
	90,367	113,535
Non-current		
Other receivables	-	237
	-	237

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	
	2018	2017
	$'000	$'000
Non-current assets		
Cross currency interest rate swaps	5,709	4,015
	5,709	4,015
Current liabilities		
Cross currency interest rate swaps	(7,866)	(8,366)
	(7,866)	(8,366)

20 Inventories

	Consolidated	
	2018	2017
	$'000	$'000
Work in progress - at cost	3,930	2,199
Consumables, spare parts - at cost	350	222
Total at cost	4,280	2,421
Equipment and parts - at NRV (1)	615	693
Total inventory	4,895	3,114

(1) During the year ended 30 June 2018 the write down of inventories to net realisable value (**NRV**) recognised as an expense in the consolidated statement of profit or loss and other comprehensive income amounted to $14,000 (2017: $157,000).

21 Intangible assets

	Consolidated 2018 $'000	Consolidated 2017 $'000
Goodwilll	-	77,880
Less: Impairment	-	(77,880)
	-	-
Other intangibles - at cost	5,130	5,006
Less: Accumulated amortisation	(3,136)	(2,119)
	1,994	2,887
Total intangible assets	1,994	2,887

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

	Consolidated 2018 $'000	Consolidated 2017 $'000
Amortisation expense	1,017	826
Goodwill impairment	-	77,880
Total expense for the year for continuing operations	1,017	78,706

22 Property, plant and equipment

	Land & buildings	Leasehold improvements	Plant & equipment	Leased plant & equipment	Office equipment	Motor vehicles	Sundry plant	Total
	Consolidated $'000							
Cost base at 30 June 2018	1,767	4,673	745,571	5,711	3,089	7,618	8,169	776,598
Accumulated depreciation at 30 June 2018	(1,088)	(4,127)	(346,077)	(2,042)	(2,741)	(6,041)	(6,531)	(368,647)
	679	546	399,494	3,669	348	1,577	1,638	407,951
Cost base at 30 June 2017	1,712	4,601	637,588	6,812	2,964	7,462	6,946	668,085
Accumulated depreciation at 30 June 2017	(866)	(3,916)	(297,975)	(1,251)	(2,516)	(5,601)	(6,223)	(318,348)
	846	685	339,613	5,561	448	1,861	723	349,737

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:	Land & buildings	Leasehold improvements	Plant & equipment	Leased plant & equipment	Office equipment	Motor vehicles	Sundry plant	Total
	Consolidated 2018 $'000							
Carrying amount at the beginning of the year	846	685	339,613	5,561	448	1,861	723	349,737
Additions	55	58	57,773	16	87	17	819	58,825
Additions from acquisition (Force)	-	55	61,891	-	38	316	528	62,828
Depreciation	(221)	(210)	(65,685)	(1,613)	(225)	(556)	(334)	(68,844)
Disposals	-	(42)	-	-	-	(25)	(50)	(117)
Transfer asset class	-	-	(612)	660	-	-	(48)	-
Impairment	-	-	-	-	-	(36)	-	(36)
Movement from/(to) assets held for sale	-	-	(14,925)	-	-	-	-	(14,925)
Disposed through sale of Emeco Canada	-	-	-	(955)	-	-	-	(955)
movement PSO stock	-	-	3,788	-	-	-	-	3,788
Movement capital WIP	-	-	17,651	-		-	-	17,651
Carrying amount at the end of the year	680	546	399,494	3,669	348	1,577	1,638	407,952

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:	Land & buildings	Leasehold improvements	Plant & equipment	Leased plant & equipment	Office equipment	Motor vehicles	Sundry plant	Total
	Consolidated 2017 $'000							
Carrying amount at the beginning of the year	2,142	934	264,637	9,198	402	1,127	1,742	**280,182**
Additions	-	19	88,426	264	275	46	46	**89,076**
Additions from acquisition (Orionstone)	-	-	85,344	-	-	1,686	144	**87,174**
Additions from acquisition (Andy's)	450	-	62,277	6,345	-	-	10	**69,082**
Depreciation	(368)	(245)	(66,540)	(1,871)	(226)	(674)	(684)	**(70,608)**
Disposals	(1,321)	(21)	-	(727)	(5)	(307)	(506)	**(2,887)**
Movement from/(to) assets held for sale	-	-	(96,217)	(7,573)	-	-	-	**(103,790)**
Net movement in rental inventory	-	-	(1,531)	-	-	-	-	**(1,531)**
Net movement in capital work in progress	-	-	6,169	-	-	-	-	**6,169**
Effects of movement in foreign exchange	(57)	(2)	(2,952)	(75)	2	(17)	(29)	**(3,130)**
Carrying amount at the end of the year	846	685	339,613	5,561	448	1,861	723	**349,737**

22 Property, plant and equipment (continued)

Depreciation

The Group has changed how it manages depreciation from an individual asset to individual componentisation of asset level. The reassessments on componentisation that reflects estimated useful life and residual value have decreased depreciation by $16,772,000 in the current year.

Security

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

Impairment tests for cash generating units

The Group conducts impairment testing annually at 30 June each year and when impairment indicators exist. At 30 June 2018, it was determined that no significant impairment indicators existed that warranted further impairment testing.

At 30 June 2017 it was determined that impairment indicators existed and further impairment testing was conducted with the recoverable amount of its cash generating units (**CGU**) calculated using a value in use and fair value less costs to sell methodologies. CGU's are classified as the operating segments of the Group. The Australia CGU was valued on a value in use methodology which is based on discounted cash flows for five years plus a terminal value. The Chile CGU was discontinued in June 2017 and consequently has been valued at Fair Value less Costs to Sell. The Canada CGU was valued on a Fair Value less Costs to Sell basis.

Determining recoverable amount requires the exercise of significant judgements for both internal and external factors. Judgements for external factors, including but not limited to equipment hire rates and utilisation, have been made with reference to historical data and observable market data using a combination of consensus views. The recoverable amount estimate is particularly sensitive to hire rates and utilisation rates. Judgements for internal factors, including but not limited to applicable discount rate and operating costs, have been made with reference to historical data and forward looking business plans. Changes in the long term view of both internal and external judgements may impact the estimated recoverable value.

Impairment testing is intended to assess the recoverable amount of both tangible and intangible assets. Nominal 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 was determined using the appropriate CGU three year swap rate plus a margin for three year tenor debt of equivalently credit rated businesses at 30 June 2017. 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 nominal post tax discount rates for determining the Australia rental CGU valuation was 9.5%. For future cashflows of the Australia CGU, the revenue growth in the first year of the business reflects the best estimate for the coming year taking account of macroeconomic, business model, strategic and market factors. Growth rates for subsequent years were based on Emeco's five year outlook taking into account all available information at this current time and are subject to change over time. A compound annual growth rate (**CAGR**) of 1.3% was used over the five years of the forecast.

23 Trade and other payables

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Current		
Trade payables		
Trade payables	31,882	24,491
Other payables and accruals	48,312	58,054
	80,194	82,545

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	
	2018	2017
	$'000	$'000
Current		
Amortised cost		
Other financing	1,857	1,584
Lease liabilities - secured	1,155	5,310
	3,012	6,894
Non-current		
Amortised cost		
USD notes - secured	481,569	462,724
Debt raising costs [1]	(16,519)	(19,440)
Debt raising costs (revolving credit facility)	(707)	(630)
Lease liabilities - secured	-	4,491
	464,343	447,145

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

Bank loans

The Group has an A$40,000,000 facility that matures in March 2020 which has two sub facilities consisting of a revolving cash advance facility (**RCF**) of A$35,000,000 and a bank guarantee Facility of A$5,000,000. The bank guarantee facility was reduced from A$30,000,000 during the period to reduce the holding costs of the unrequired portion of this facility. The bank guarantee facility attracts a fee of 2.75% on the unutilised portion of the facility and a fee of 5.5% on the outstanding balance of guarantees on issue. The nominal interest rate on the RCF is equal to the aggregate of the bank bill swap rate (**BBSY**) plus a margin of between 5% and 7% dependant on the calculated leverage ratio. The facility also attracts an undrawn line fee of between 2.5% and 3.5% dependant on the calculated leverage ratio on the undrawn available balance of the facility. The facilities require the Group to maintain a collateral coverage ratio greater than 3.0x and a fixed charge coverage ratio greater than 1.2x. At year end the Group had drawn $Nil of the RCF but had utilised $3,531,000 of the bank guarantee facility.

24 Interest bearing liabilities (continued)

Secured notes issue

The Group has issued secured fixed interest notes to the value of US$360,818,000 which matures on 30 March 2022. The nominal fixed interest rate is 9.25%. These notes will remain fully drawn until maturity. Of the notes on issue, the Group holds US$4,890,000 which has been netted off against the total notes outstanding. Under the terms of the note agreement, the noteholders hold a joint fixed and floating charge with the revolving credit facility bank over the assets and undertakings of the Group. The notes are measured at amortised cost. The notes have a limitation on capital expenditure to the amount of A$100,000,000 net capex for the 12-month period commencing 31 March 2017 and for each subsequent 12-month period. Any unused limit can be carried forward for the subsequent 12-month period. An agreement was reached on 15 February 2018 to change the limitation on capital expenditure. Prior to this the notes had a limitation on capital expenditure to the amount of A$77,500,000 for the 10 months ending 31 January 2018, A$87,500,000 for the 12 months ending 31 January 2019 and A$92,500,000 for the 12 months ending 21 January 2019 and for each subsequent 12 month period. Any unused limit could be carried forward for the subsequent 12 month period. The Group designated derivatives (cross currency interest rate swaps) as hedge instruments against this underlying debt.

	FY18		FY17	
	USD $'000	**AUD $'000**	**USD $'000**	**AUD $'000**
USD notes	US$355,927	$481,569	US$355,927	$462,724
Hedged (asset)/liability	-	$2,157	-	$4,351
Net exposure	US$355,927	$483,726	US$355,927	$467,075

Working capital facilities

The Group has a credit card facility with a limit of A$110,000. The facility is secured via a cash cover account.

Finance leases

At 30 June 2018, the Group held finance lease facilities totalling A$1,155,000 (2017: A$9,801,000) which have various maturities up to November 2020. Liabilities under the facility are secured by the assets leased.

Other financial liabilities

At year end the Group financed its insurance premium totalling A$1,857,000 which matures in January 2019.

24 Interest bearing liabilities (continued)

Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	2018	2018	2018	2017	2017	2017
Consolidated	$'000	$'000	$'000	$'000	$'000	$'000
Less than one year	1,183	(28)	1,155	5,769	(459)	5,310
Between one and five years	-	-	-	4,689	(198)	4,491
More than five years	-	-	-	-	-	-
	1,183	(28)	1,155	10,458	(657)	9,801

The Group leases plant and equipment under finance leases. The Group's lease liabilities are secured by the leased assets of $3,669,000 (2017: $5,561,000). In the event of default, the leased assets revert to the lessor.

Reconciliation of liabilities arising from financing activities

Liabilities arising from financing activities are those for which cash flows were or will be classified in the Group's consolidated statement of cash flows. The following table details cash and non-cash movements in the Group's liabilities arising from financing activities:

	1 July 2017 $'000	Financing cash flows $'000	Disposal of subsidiary $'000	Financial expense* $'000	New debt acquired $'000	Unrealised FX $'000	30 June 2018 $'000
Lease liabilities	9,801	(5,018)	(3,903)	275	-	-	1,155
USD notes	462,724	-	-	-	-	18,845	481,569
Debt raising costs	(19,440)	(592)	-	3,513	-	-	(16,519)
Debt raising costs (revolving credit facility)	(630)	(487)	-	410	-	-	(707)
Other financing	1,584	(1,584)	-	-	1,857	-	1,857
	454,039	(7,681)	(3,903)	4,198	1,857	18,845	467,355

*inclusive of amortisation expense

25 Financing arrangements

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

	Consolidated $'000		
2018	**Available facility**	**Facility utilised at reporting date**	**Facility not utilised at reporting date**
Revolving credit facility	35,000	-	35,000
Bank guarantee facility [(2)]	5,000	3,531	1,469
USD notes [(1)]	481,569	481,569	-
Finance leases	1,155	1,155	-
Insurance financing	1,857	1,857	-
Working capital	110	110	-
	524,691	488,222	36,469

	Consolidated $'000		
2017	**Available facility**	**Facility utilised at reporting date**	**Facility not utilised at reporting date**
Revolving credit facility	35,000	-	35,000
Bank guarantee facility [(2)]	30,000	2,729	27,271
USD notes [(1)]	462,724	462,724	-
Finance leases	9,801	9,801	-
Insurance financing	1,584	1,584	-
Working capital	866	866	-
	539,975	477,704	62,271

(1) The facility of US$360,818,000/A$481,569,000 was fully drawn at 30 June 2018. The Group holds US$4,890,000/A$6,616,000 face value of bonds which have not been cancelled and are available for re-issue. The notes held by the Group have reduced the total outstanding balance attributed to the notes on issue in the consolidated statement of financial position.

(2) The bank guarantee facility was reduced from A$30,000,000 during the period to reduce the holding costs of the unrequired portion of this facility.

26 Provisions

	Consolidated 2018 $'000	Consolidated 2017 $'000
Current		
Employee benefits:		
- annual leave	4,900	3,381
- long service leave	1,545	903
Provision for restructuring	324	2,099
	6,769	6,383
Non-current		
Employee benefits - long service leave	386	494
Provision for restructuring	-	410
	386	904

	Consolidated Employee benefits	Consolidated Provision for restructuring	Total
Balance at 1 July 2017	4,778	2,509	7,287
Provisions acquired through Force	2,761	-	2,761
Reductions arising from payments	(708)	(2,185)	(2,893)
Balance at 30 June 2018	6,831	324	7,155

Defined contribution superannuation funds
The Group makes contributions to defined contribution superannuation funds. The expense recognised for the year was $4,689,000 (2017: $2,128,000).

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 RI (refer note 3(j)(v)).

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 FY17: Performance shares/rights 2014	24,491,074	3 years service TSR ranking to a basket of direct and indirect peers of 99 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. No shares/rights vested due to TSR being less than 75%.	3 years
Matured in FY18: Performance shares/rights 2015	19,681,416	3 years service TSR ranking to a basket of direct and indirect peers of 99 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. No shares/rights vested due to TSR being less than 75%.	3 years
Unvested plans:			
Performance shares/rights 2016	38,612,893	3 years service TSR ranking to a basket of direct and indirect peers of 123 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

Retention incentive plan

Grant date / employees entitled	Number of instruments	Vesting conditions	Contractual life of performance shares/rights
Performance shares/rights 2017	303,603,596	3 years service	3 years

27 Share based payments (continued)

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

	Number of performance shares/rights 2018	Number of performance shares/rights 2017
Outstanding at 1 July	211,504,857	49,289,980
Forfeited during the period	(7,371,827)	(19,544,793)
Exercised during the period	-	(121,843,024)
Granted during the period	-	303,602,694
Outstanding at 30 June	204,133,030	211,504,857
Exercisable at 30 June	-	-

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 RI's granted, measured using a value weighted average price (2017: RI's granted, measured using a value weighted average price). Expected volatility is estimated by considering the Company's historical daily and monthly share price movement and an analysis of comparable companies. Volatility has not been included in the 2017 and 2018 valuation due to the incentives not containing market vesting conditions. Market conditions are detailed in note 3(j)(v).

27 Share based payments (continued)

For the Group's CEO and key management personnel the following applies:

Dividends:

- dividends (or shadow dividends) will not be paid on unvested LTI or RI 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 or RI securities will be pro-rated to reflect the performance achieved;
- the proportion of vesting LTI or RI 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	**2018**	**2017**
Performance shares/rights	10,816,362	6,401,305
Total expense recognised as employee costs (1)	10,816,362	6,401,305

(1) Should an employee be made redundant, the remaining share based payment expense for the vesting period will be accelerated and recognised in the period the employee was made redundant.

28 Commitments

(a) Operating lease commitments

	Consolidated	
	2018	2017
	$'000	$'000
Future non-cancellable operating leases not provided for in the finanical statements and payable:		
Less than one year	11,707	14,145
Between one and five years	12,103	10,589
More than five years	-	-
	23,810	24,734

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 2018 an amount of $14,145,000 was recognised as an expense in profit or loss in respect of operating leases (2017: $17,954,000).

(b) Capital commitments

The Group has entered into commitments for purchases of fixed assets, primarily rental fleet assets, with a value of $12,050,000 (2017: $Nil) which are expected to settle at various dates over the next twelve months.

29 Contingent liabilities

Guarantees
The Group has provided bank guarantees in the amount of $3,531,000 (2017: $4,172,000) in relation to obligations under operating leases and rental premises.

Indonesia
Since the Group announced it would exit its Indonesian operations, the Indonesian tax office commenced routine VAT and Corporate income tax audits. As a consequence the Indonesian tax office have issued an assessment which the Group have disputed. Under local laws an assessment does not become final until all appeal avenues have been exhausted.

The process to liquidate the Indonesian entity has commenced and the Group continues to manage its on-going tax and legal obligations in Indonesia. The Group does not believe any potential exposure exists in relation to the Indonesian entity.

30 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	2018 $'000	2017 $'000
Cash assets	17	171,431	16,978

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

		Consolidated	
	Note	2018 $'000	2017 $'000
Net profit/(loss) - continuing operations		5,320	(157,168)
Add/(less) items classified as investing/financing activities:			
Net profit on sale of non-current assets	7	(755)	(504)
Acquisition costs	36	3,836	14,445
Add/(less) non-cash items:			
Amortisation	21	1,017	826
Depreciation	8	68,844	54,747
Amortisation of borrowing costs using effective interest rate	8	4,117	5,078
Write off previous deferred borrowing costs	8	-	5,778
(Gain)/loss on hedge	6	-	1,349
Discount on refinanced debt	8	-	(20,359)
Shares issued to BDCM	8	-	10,253
Withholding tax expense	8	-	767
Foreign exchange (gain)/loss	8	12,617	10,029
Impairment losses on tangible assets	8	11,150	8,206
Bad debts	8	339	24
Provision for doubtful debts/(reversal)	8	36	(591)
Impairment of goodwill		-	77,880
Other non-cash items and reclassifications		4,265	(9,169)
Equity settled share based payments	8	10,816	6,164
(Increase)/decrease in deferred tax asset		(21,396)	14,671
Net cash flow from operating activities of discontinued operations		(6,194)	25,554
Net cash from operating activities before change in assets/(liabilities) adjusted for assets and (liabilities) acquired		94,012	47,980
(Increase)/decrease in trade and other receivables		35,893	(49,228)
(Increase)/decrease in inventories		(1,781)	(2,712)
Increase/(decrease) in payables		(3,821)	17,047
Increase/(decrease) in provisions		1,230	509
Net cash from/(used in) operating activities		125,533	13,596

31 Controlled entities

(a) Particulars in relation to controlled entities

	Country of incorporation	Ownership interest 2018 %	Ownership interest 2017 %
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
EHL Corporate Pty Ltd	Australia	100	100
Emeco Parts Pty Ltd	Australia	100	100
Emeco Finance Pty Ltd	Australia	100	100
Andy's Earthmovers (Asia Pacific) Pty Ltd	Australia	100	100
Orionstone Holdings Pty Ltd	Australia	100	100
Orionstone Pty Ltd	Australia	100	100
Ironstone Group Pty Ltd	Australia	100	100
Orion (WA) Pty Ltd	Australia	100	100
RPO Australia Pty Ltd	Australia	100	100
Force Equipment Pty Ltd	Australia	100	-
Emeco Equipment (USA) LLC	United States	100	100
Emeco Canada Ltd	Canada	-	100
Emeco (UK) Limited	United Kingdom	100	100
Emeco International Europe BV	Netherlands	100	100
Emeco Europe BV	Netherlands	100	100
Emeco BV	Netherlands	100	100
PT Prima Traktor IndoNusa	Indonesia	100	100
Emeco Holdings South America SpA	Chile	100	100
Enduro SpA	Chile	100	100

(b) Acquisition of entities in the current year

The following entity was acquired in the current year:

- Force Equipment Pty Ltd

Refer to note 36 for details on the acquisition of this entity.

(c) Acquisition of entities in the prior year

The following entities were acquired in the prior year:

- Andy's Earthmovers (Asia Pacific) Pty Ltd
- Orionstone Holdings Pty Ltd
- Orionstone Pty Ltd
- Ironstone Group Pty Ltd
- Orion (WA) Pty Ltd
- RPO Australia Pty Ltd

(d) Disposals of entities in the current year

The following entity was disposed of in the current year:

- Emeco Canada Ltd

32 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	
Peter Richards	Chair
Peter Frank	
Keith Skinner	
Darren Yeates	

Executive directors	
Ian Testrow	Managing Director & Chief Executive Officer

Other executives	**Position**
Thao Pham	Chief Strategy Officer
Justine Lea	Chief Financial Officer

32 Key management personnel disclosure (continued)

Key management personnel compensation

The key management personnel compensation is as follows:

	Consolidated	
In AUD	**2018**	**2017**
Short term employee benefits	3,190,490	6,008,791
Other long term benefits	-	-
Post-employment benefits	216,032	210,262
Termination benefits	-	-
Equity compensation benefits	4,096,165	1,137,258
	7,502,687	7,356,311

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 20 to 32.

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 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 three years depending upon the Company's total shareholder return ranking against a peer group of 99 Companies. The shares have been accounted for as an option in accordance with AASB 2 *Share Based Payments.*

Shares and rights over equity instruments granted as compensation under retention incentive plan
The Company has an ongoing retention incentive plan in which shares have been granted to certain employees of the Company. The shares vest after three years.

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. There were no transactions between the Group and these related entities during the period (FY17 nil).

33 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 an arm's length rate.

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

34 Subsequent events

On 2 July 2018, the Company acquired Matilda Equipment Holdings Pty Ltd and its subsidiary Matilda Equipment Pty Ltd. Refer to note 36 for further details on the transaction.

No other significant events have occurred subsequent to the year ended 30 June 2018.

35 Earnings per share

Basic earnings per share
The calculation of basic earnings per share at 30 June 2018 was based on the profit/(loss) attributable to ordinary shareholders of $11,376,000 (2017: ($180,463,000)) and a weighted average number of ordinary shares outstanding less any treasury shares for the year ended 30 June 2018 of 2,617,203,727 (2017: 967,114,525).

Profit attributed to ordinary shareholders

	Consolidated					
	2018			2017		
	Continuing operations $'000	Discontinued operations $'000	Total $'000	Continuing operations $'000	Discontinued operations $'000	Total $'000
Profit/(loss) for the year	5,320	6,056	11,376	(157,167)	(23,296)	(180,463)

35 Earnings per share (continued)

Weighted average number of ordinary shares

	Consolidated 2018 '000	Consolidated 2017 '000
Issued ordinary shares at 1 July	2,226,170	557,569
Effect of shares issued during the period	336,349	457,628
Effect of vested employee share plans	54,685	3,460
Effect of purchased treasury shares	-	(51,542)
Weighted average number of ordinary shares at 30 June	2,617,204	967,115

Diluted earnings per share
The calculation of diluted earnings per share at 30 June 2018 was based on the profit/(loss) attributable to ordinary shareholders of $11,376,000 (2017: ($180,463,000)) and a weighted average number of ordinary shares outstanding less any treasury shares during the financial year ended 30 June 2018 of 2,821,336,757 (2017: 1,043,671,000).

Profit attributed to ordinary shareholders (diluted)

	Consolidated					
	2018			2017		
	Continuing operations $'000	Discontinued operations $'000	Total $'000	Continuing operations $'000	Discontinued operations $'000	Total $'000
Profit/(loss) attributed to ordinary shareholders (basic)	5,320	6,056	11,376	(157,167)	(23,296)	(180,463)

Weighted average number of ordinary shares (diluted)

	Consolidated 2018 '000	Consolidated 2017 '000
Issued ordinary shares at 1 July	2,226,170	557,569
Effect of shares issued during the period	336,349	457,628
Effect of vested employee share plans	54,685	3,460
Effect of unvested employee share plans	204,133	76,556
Effect of purchased treasury shares	-	(51,542)
Weighted average number of ordinary shares (diluted) at 30 June	2,821,337	1,043,671

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.

36 Business combinations

Force Equipment Pty Ltd
On 30 November 2017, Emeco Holdings Limited acquired 100% of the shares in Force Equipment Pty Ltd (**Force**) for total consideration of $72,643,000 settled by an upfront cash payment of $69,940,000, and an additional cash payment of $2,703,000 in relation to a working capital adjustment paid in February 2018.

The values identified in relation to the acquisition are provisional as at reporting date 30 June 2018. Details of the acquisition are as follows:

	Force Equipment Pty Ltd $'000
Cash assets	3,395
Trade and other receivables	15,168
Inventories	3,538
Prepayments	506
Plant and equipment	62,828
Tax assets	781
Trade and other payables	(10,812)
Provisions	(2,761)
Net assets /(liabilities) acquired	72,643
Acquisition date fair value of consideration transferred	72,643
Representing:	
Cash	69,940
Cash consideration paid in respect of working capital adjustment	2,703
Total	72,643
Acquisition costs expensed to profit or loss	1,912
Cash used to acquire the business, net of cash aquired:	
Acquisition date fair value of consideration transferred	72,643
Less: cash and cash equivalents	(3,395)
Net cash paid	69,248

Impact of acquisitions on the results of the Group
The Group has fully integrated the acquisition of the business from the acquisition date and is therefore unable to accurately quantify the additional revenue and earnings contributed to the Group by the acquired business.

36 Business combinations (continued)

Matilda Equipment Pty Ltd

Subsequent to the end of the reporting period, on 2 July 2018, Emeco Holdings Limited acquired 100% of the shares in Matilda Equipment Holdings Pty Ltd (**Matilda**) and its subsidiary Matilda Equipment Pty Ltd for total consideration of $94,295,000 settled by an upfront cash payment of $93,312,000 and an additional estimated cash payment of $983,000 in relation to a working capital adjustment to be paid in September 2018.

The values identified in relation to the acquisition are provisional as at reporting date 30 June 2018. A valuation of intangible assets has yet to be finalised and may change the value recognised in relation to Goodwill and Intangibles. Details of the acquisition are as follows:

	Matilda Equipment Pty Ltd $'000
Cash assets	549
Trade and other receivables	6,861
Inventories	580
Prepayments	177
Plant and equipment	80,154
Goodwill/intangibles	9,477
Tax assets	-
Trade and other payables	(3,344)
Provisions	(159)
Net assets /(liabilities) acquired	94,295
Acquisition date fair value of consideration transferred	94,295
Representing:	
Cash	93,312
Cash consideration expected to be paid in respect of working capital adjustment	983
Total	94,295
Acquisition costs expensed to profit or loss	1,924
Cash used to acquire the business, net of cash aquired:	
Acquisition date fair value of consideration transferred	94,295
Less: cash and cash equivalents	(549)
Net Cash paid	93,746

36 Business combinations (continued)

Andy's Earthmovers (Asia Pacific) Pty Ltd
On 31 March 2017, Emeco Holdings Limited acquired 100% of the shares in Andy's Earthmovers (Asia Pacific) Pty Ltd (**Andy's**) for total consideration transferred of $8,788,666 arising from the issue of 105,887,545 shares. The issue of Emeco shares was at the market price of $0.083.

Goodwill of $4,947,000 represents the residual value of the purchase price of the company over the fair value of identified tangible and intangible assets.

The trade and other receivables acquired in this transaction with a fair value of $15,439,000 had a gross contractual amount of $23,845,517. The best estimate at acquisition date of the contractual cash flows not expected to be collected is $8,407,000.

Orionstone Holdings Pty Ltd
On 31 March 2017, Emeco Holdings Limited acquired 100% of the shares in Orionstone Holdings Pty Ltd (**Orionstone**) for total consideration transferred of $17,793,598 arising from the issue of 214,380,704 shares. The issue of Emeco shares was at the market price of $0.083.

Goodwill of $72,933,000 represents the residual value of the purchase price of the company over the fair value of identified tangible and intangible assets.

The trade and other receivables acquired in this transaction with a fair value of $10,017,000 had gross contractual amounts of $15,349,942. The best estimate at acquisition date of the contractual cash flows not expected to be collected is $5,332,690.

Goodwill
Goodwill of $77,880,000 was recognised on the acquisition of Andy's ($4,947,000) and Orionstone ($72,933,000) and was allocated to the Australia cash generating unit (**CGU**). Goodwill arose in the acquisition of Andy's and Orionstone due to an increase in the Company's share price over the period that completion of transaction was delayed in addition to an increase in short term liabilities acquired from both businesses. The Company did not intend to provide consideration for the transaction in excess of the fair value. Impairment testing indicated the Australia CGU was impaired by $77,880,000. In accordance with AASB 136, the impairment was first allocated against the goodwill recognised in the Australia CGU. The resulting impairment resulted in the goodwill acquired during the period being impaired to zero. An impairment expense of $77,880,000 was recognised in the consolidated statement of profit or loss and other comprehensive income during the period.

36 Business combinations (continued)

The values identified in relation to the acquisition are final as at reporting date 30 June 2018. Details of the acquisition are as follows:

	Andy's Earthmovers (Asia Pacific) Pty Ltd $'000	Orionstone Holdings Pty Ltd $'000	Total $'000
Cash assets	159	783	942
Trade and other receivables	15,439	11,740	27,179
Inventories	156	350	506
Prepayments	12	54	66
Plant and equipment	64,557	91,699	156,256
Tax assets/(liabilites)	2,202	(3,063)	(861)
Investments	799	-	799
Trade and other payables	(9,049)	(14,403)	(23,452)
Provisions	(905)	(343)	(1,248)
Interest bearing liabilities	(69,529)	(141,957)	(211,486)
Net assets /(liaibilities) acquired	3,841	(55,140)	(51,299)
Goodwill	4,947	72,933	77,880
Acquisition date fair value of consideration transferred	8,788	17,793	26,581
Representing:			
Emeco Holdings Limited shares	8,788	17,793	26,581
Acquisition costs expensed to profit or loss	4,776	9,669	14,445
Cash used to acquire the business, net of cash aquired:			
Acquisition date fair value of consideration transferred	8,788	17,793	26,581
Less: cash and cash equivalents	(159)	(783)	(942)
Less: Emeco Holdings Limited shares	(8,788)	(17,793)	(26,581)
Net Cash received	159	783	942

37 Parent entity disclosure

As at and throughout the financial year ending 30 June 2018 the parent entity (the '**Company**') of the Group was Emeco Holdings Limited.

	Company	
	2018	**2017**
	$'000	**$'000**
Result of the parent entity		
Profit/(loss) for the period	(17,033)	(63,730)
Other comprehensive income	-	-
Total comprehensive income for the period	(17,033)	(63,730)
Financial position of parent entity at year end		
Current assets	20	20
Non-current assets	412,012	322,589
Total assets	412,032	322,609
Current liabilities	-	-
Non-current liabilities	-	-
Total liabilities	-	-
Total equity of the parent entity comprising of:		
Share capital	915,224	749,117
Share based payment reserve	28,207	23,145
Reserve for own shares	(33,026)	(39,074)
Retained earnings	(498,373)	(410,579)
Total equity	412,032	322,609

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, Emeco International Pty Ltd is 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
- Andy's Earthmovers (Asia Pacific) Pty Ltd
- Orionstone Holdings Pty Ltd
- Orionstone Pty Ltd
- Force Equipment Pty Ltd

38 Deed of cross guarantee (continued)

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 2018 is set out as follows:

Statement of profit or loss and other comprehensive income and retained earnings

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Revenue	380,992	196,043
Cost of sales	(271,277)	(124,126)
Gross profit	109,715	71,917
Operating expense	(63,707)	(77,002)
Other income	2,251	581
Impairment of goodwill	-	77,880
Finance income	492	34,454
Finance costs	(50,900)	(62,902)
Impairment of assets	(11,150)	(157)
Impairment of investment	-	(31,690)
Profit before tax	(13,299)	13,080
Tax expense	18,707	(14,671)
Net profit after tax	5,408	(1,591)
Other comprehensive income	(3,104)	(1,003)
Total comprehensive income for the period	(3,104)	(1,003)
Retained earnings at beginning of year	(571,126)	(569,535)
Retained earnings at end of year	(565,718)	(571,126)
Attributable to:		
Equity holders of the Company	(565,718)	(571,126)
Profit/(loss) for the period	5,408	(1,591)

38 Deed of cross guarantee (continued)

Statement of financial position

	Consolidated	
	2018	2017
	$'000	$'000
Current assets		
Cash and cash equivalents	171,173	12,332
Trade and other receivables	93,063	107,022
Derivatives	-	-
Inventories	4,895	3,515
Assets held for sale	7,937	25,833
Total current assets	277,068	148,702
Non-current assets		
Trade and other receivables	17,808	119,524
Derivatives	5,709	4,015
Intangible assets	1,994	2,888
Investments	186,661	157,173
Property, plant and equipment	407,951	348,783
Deferred tax assets	22,177	12,218
Total non-current assets	642,300	644,601
Total assets	919,368	793,303
Current liabilities		
Trade and other payables	81,048	62,359
Derivatives	7,866	9,149
Interest bearing liabilities	3,012	3,714
Provisions	6,881	5,136
Total current liabilities	98,807	80,358
Non-current liabilities		
Interest bearing liabilities	464,343	456,122
Deferred tax liabilities	-	11,311
Provisions	386	-
Total non-current liabilities	464,729	467,433
Total liabilities	563,536	547,791
Net assets	355,832	245,512
Equity		
Issued capital	915,224	749,117
Share based payment reserve	28,207	22,935
Reserves	(21,881)	44,586
Retained earnings/(losses)	(565,718)	(571,126)
Total equity attributable to equity holders of the parent	355,832	245,512

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 34 - 113, and remuneration report in the directors' report, set out on pages 20 to 32 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 2018 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 2018.

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 2018

Signed in accordance with a resolution of the directors:

Ian Testrow
Managing Director

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Deloitte Touche Tohmatsu
Tower 2, Brookfield Place,
123 St Georges Tce,
Perth WA 6000, Australia

DX 206
Tel: +61 (0) 8 9365 7000
Fax: +61 (0) 8 9365 7001
www.deloitte.com.au

Independent Auditor's Report to the members of Emeco Holdings Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Emeco Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Acquisition Accounting On 30 November 2017 Emeco Holdings Limited acquired Force Equipment Pty Ltd as disclosed in note 36. Accounting for this transaction is complex, requiring management to exercise judgement to determine the fair value of acquired assets and liabilities, including separately identifiable intangible assets and determining the allocation of purchase consideration to goodwill.	Our procedures included, but were not limited to: · Reading the purchase agreements to understand key terms and conditions and confirming our understanding of the transaction with management; · Assessing the reliability of third party valuations including consideration of their competency and experience which were utilised by management in the determination of fair value of acquired assets; and · Reviewing the opening balances of Force Equipment's working capital balances and the fair value adjustments. We also assessed the appropriateness of the disclosures in note 36 to the financial statements.
Recoverability of deferred tax assets The Group has recognised $22.4 million of deferred tax assets as at 30 June 2018 as per note 12. Australian Accounting Standards require deferred tax assets to be recognised only to the extent that it is probable that sufficient future taxable profits will be generated in order for the benefits of the deferred tax assets to be realised. We focussed on this matter due to the significant judgement required to assess the probability that future taxable profits will be available against which unused tax losses can be utilised profits.	We assessed the Group's ability to utilise the deferred tax assets recognised as at 30 June 2018, based on the extent to which they can be recovered by future taxable profits, through: · Understanding the process that management undertakes to develop the model for future taxable profit; · Comparing profit forecasts to Board approved business plans; · Assessing historical forecasting accuracy by comparing actual performance to budgets; · Testing on a sample basis management's model for future taxable profit for mathematical accuracy; · In conjunction with our tax experts evaluating whether the unused tax losses are available to the Group and whether the profit forecasts had been appropriately adjusted for the differences between accounting profits and taxable profits; and · recalculating deferred tax asset balances which comprise a combination of timing differences between tax and accounting values, and tax losses. We also assessed the appropriateness of the disclosures in note 12 to the financial statements.

Deloitte.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial

Deloitte.

report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 32 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Emeco Holdings Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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 Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
Partner
Chartered Accountants
Perth, 20 August 2018

Shareholder Information

Financial calendar

The annual general meeting of Emeco Holdings Limited will be held at Baker McKenzie, Tower One - International Towers Sydney, 100 Barangaroo Avenue, Barangaroo NSW on Thursday, 15 November 2018 commencing at 1.00pm (Sydney time).

Event	Date*
Annual general meeting	15 November 2018
Half year	31 December 2018
Half year profit announcement	February 2019
Year end	30 June 2019

*Timing of events is subject to change and board discretion.

Shareholder statistics

Substantial shareholders

Details regarding substantial holders of the Company's ordinary shares as at 1 August 2018, as disclosed in the substantial holding notices given to the Company, are as follows:

Name	Shares	% Issued capital
Black Diamond Capital Management LLC Black Diamond CLO 2012-1 Ltd Black Diamond Credit Strategies Master Fund Ltd Black Diamond CLO 2006-1 (Cayman) Ltd BDCM Opportunity Fund IV LP BDCM Opportunity Fund III LP	661,286,351	23.47
Paradice Investment Management Pty Ltd	267,847,315	8.565
First Samuel Limited	166,939,396	5.25
Black Crane Asia Opportunities Fund	110,839,604	4.55

Shareholder information

Distribution of shareholders

As at 1 August 2018, there were 5,818 holders of the Company's ordinary shares. The distribution as at 1 August 2018 was as follows:

Range	Investors	Securities	% Issued capital
100,001 and Over	572	3,092,294,538	97.28
10,001 to 100,000	2,170	75,070,762	2.36
5,001 to 10,000	929	7,167,685	0.23
1,001 to 5,000	1,405	4,001,850	0.13
1 to 1,000	742	324,162	0.01
Total	**5,818**	**3,178,858,997**	**100.00**

The number of security investors holding less than a marketable parcel of 1,449 securities ($0.345 on 1 August 2018) is 920 and they hold 540,229 securities.

20 largest shareholders

The names of the 20 largest holders of the Company's ordinary shares as at 1 August 2018 are:

Rank	Name	Equity securities	% Issued capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	730,371,270	22.98
2	BDCM OPPORTUNITY FUND IV LP	597,003,547	18.78
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	423,036,155	13.31
4	CITICORP NOMINEES PTY LIMITED	378,523,607	11.91
5	NATIONAL NOMINEES LIMITED	201,547,184	6.34
6	PACIFIC CUSTODIANS PTY LIMITED	135,081,471	4.25
7	BDCM OPPORTUNITY FUND III LP	117,051,449	3.68
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	62,596,318	1.97
9	CS FOURTH NOMINEES PTY LIMITED	54,272,441	1.71
10	BNP PARIBAS NOMINEES PTY LTD	42,248,708	1.33
11	BNP PARIBAS NOMS PTY LTD	41,772,732	1.31
12	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	22,318,100	0.70
13	UBS NOMINEES PTY LTD	17,993,424	0.57
14	CS THIRD NOMINEES PTY LIMITED	16,069,080	0.51
15	BLACK DIAMOND CREDIT STRATEGIES MASTER FUND LTD	11,640,603	0.37
16	NATIONAL NOMINEES LIMITED	10,787,284	0.34
17	ELPHINSTONE HOLDINGS PTY LTD	8,948,783	0.28
18	BOND STREET CUSTODIANS LTD	5,902,755	0.19
19	BNP PARIBAS NOMINEES PTY LTD	5,373,041	0.17
20	DENNIS BUSINESS ASSETS PTY LTD	5,160,417	0.16

Shareholder information

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 ($)

Unquoted equity securities

As at 1 August 2018, there are 73,646,355 performance rights on issue to eight participants pursuant to the Company's employee incentive plans.

Emeco Holdings Limited and its Controlled Entities
Company Directory

DIRECTORS

Peter Richards
Ian Testrow
Peter Frank
Keith Skinner
Darren Yeates

SECRETARY

Penelope Young

REGISTERED OFFICE

Level 3, 71 Walters Drive
Osborne Park WA 6017

Phone: +61 8 9420 0222
Fax: +61 8 9420 0205

SHARE REGISTRY

Link Market Services Limited
Level 12 QV1 Building,
250 St Georges Terrace
Perth WA 6000

Phone: 1800 689 300
www.linkmarketservices.com.au

AUDITORS

Deloitte Touche Tohmatsu
Brookfield Place, Tower 2
123 St Georges Terrace
Perth WA 6000

SECURITIES EXCHANGE LISTING

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