# McAleese Limited

ABN 156 354 068

General purpose financial statements

## Annual Financial Report

30 June 2012

# Contents

The directors present their report together with the consolidated financial statements of the Group comprising of McAleese Limited (the Company), and its subsidiaries (the Group) for the financial year ended 30 June 2012 and the auditor's report thereon.



## 1. Directors

The directors of the Company at any time during or since the end of the financial year are:

| | |
|---|---|
| Mr Mark Rowsthorn (Non-Executive Chairman) | Appointed 19/03/2012 |
| Over 35 years experience in transport/logistics industries | |
| Former CEO and Managing Director of Asciano, and formerly Co-founder and Executive Director of Toll Holdings | |
| Mr Harold Keith Price (Executive Director) | Appointed 19/03/2012 |
| Managing Director of McAleese since 1988 | |
| Prior to investing in McAleese, Keith was involved in other transport related businesses | |
| 40+ years relevant industry experience | |
| Mr Gilberto Maggiolo (Non-Executive Director) | Appointed 19/03/2012 |
| Non-Executive Director of Harbrew since formation | |
| Co-founder and Director of BOMA Group (property development), Epoca Constructions (civil, structural and mechanical engineering), and Azzuro (bathroom furniture manufacturer) | |
| Mr Marcus Pillhofer (Executive Director and Company Secretary) | Appointed 19/03/2012 |
| Group CFO of McAleese since 2003 | |
| Prior to joining McAleese, Marcus worked in South Africa for Super Group for 3 years (role as Group Special Projects Manager) and for Rand Merchant Bank Asset Management for 3 years | |
| Chartered Accountant with 10+ years relevant industry experience | |
| Mr Mark McSweeney (Non-Executive Director) | Appointed 19/03/2012 |
| Chartered Accountant with significant experience across a broad spectrum of industries through his work with Ernst & Young, Relationship Business Banking with NAB and as a consultant and shareholder of a number of high growth private companies | |

## 2. Principal activities

The principle activities McAleese Limited ("the Company") and its subsidiaries (together "the Consolidated Group" or "the Group") during the financial year were the provision of transport and crane hire services. The acquisition of the International Energy Services group of companies ("IES") on 5 April 2012 has ensured that the Group is well positioned to become the leading supplier of specialised transport, logistics and lifting solutions to the resources and related infrastructure sectors. There were no other significant changes in the nature of the activities of the Group during the year.

## 3. Operating and financing review

### Group overview

The Group was established to provide specialised transport and craneage solutions to a diverse range of industries, including mining, industrial projects, and infrastructure developments. The Group operates within Australia and manages the largest privately owned heavy haulage, and mobile crane fleet in the country.

The acquisition of IES, a market leader in the transport logistics market, has further strengthened the Group's competitive advantage and market position.

During the financial year the Group also underwent a restructure that resulted in the formation of McAleese Limited. As a result of this restructure McAleese Limited acquired Harbrew Pty Ltd and its subsidiaries as a common control transaction.

### Results

The Group's loss attributable to members of the Company for the year after income tax is $17,551,000 (2011: $9,487,000 profit).

### Review of operations

Corporate activity for the period ending 30 June 2012 focused on positioning the Group for strategic growth, whilst maintaining the key strengths of the underlying business. The Group has continued to make good progress in growing its business operations and has benefited from both acquisition and organic growth.

The Group's earnings before finance costs, significant items and income tax (underlying EBIT) was $50.088 million (2011: $30.112 million) for the financial year, an increase of 66% on the prior year. Management uses the underlying EBIT to assess the Group's performance.

A reconciliation of underlying EBIT to statutory profit from operating activities before finance costs and income tax is provided below.

| *in millions of dollars* | 2012 | 2011 |
|---|---|---|
| **Earnings before finance costs, significant items and income tax (underlying EBIT)** | **50.088** | **30.112** |
| Impairment losses | (25.382) | (7.827) |
| Acquisition costs | (7.841) | (0.741) |
| Other significant items | - | (0.423) |
| **Earnings before finance costs and income tax** | **16.865** | **21.121** |

Acquisition costs in the current financial year relate to the acquisition of IES. Impairment losses in the current financial year relate to a write-off of goodwill recognised on the IES acquisition.

Non-IFRS financial information has not been subject to audit or review by the Company's external auditors.

Sales revenues also increased during the period to $330.9 million, up $184 million or 125% on the prior year. The improving performance was due to expansion of the Group through the acquisition of IES and improvements to operational efficiency.

## 4. Significant changes in the state of affairs

Other than matters mentioned in this report, there were no significant changes in the state of affairs of the Consolidated Group during the financial year.

## 5. Environmental regulation

The Consolidated Group's operations are subject to environmental laws. The Company operates a rigorous environmental compliance program, and reports any breaches to the appropriate authorities in a timely manner. During the year, no member of the Consolidated Group was prosecuted nor was any fine imposed on it for breach of environmental laws in any jurisdiction.

## 6. Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## 7. Likely developments

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

## 8. Directors' interests

As at the date of this report, the interests of the directors in the shares of McAleese Limited were:

| Director | Number of ordinary shares |
|---|---|
| Mr Harold Keith Price | 139,940 |
| Mr Gilberto Maggiolo | 114,530 |
| Mr Marcus Pillhofer | 13,484 |

During the financial year McAleese Limited issued 477,020 convertible notes to Mark Rowsthorn (Chairman of the Board). These notes have a nominal valued of $100 million and if converted to equity at the date of this report would equate to 46.7% of the Company's total share capital.

## 9. Indemnification and insurance of officers and auditors

### Indemnification

Since the end of the previous financial year, the Company has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer or auditor of the Company.

### Insurance premiums

Since the end of the previous financial year the Company has paid insurance premiums of $20,693 in respect of directors' and officers' liability and legal expenses' insurance contracts, for current and former directors and officers, including senior executives of the Company and directors, senior executives and secretaries of its controlled entities.

The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The premiums were paid in respect of the following officers of the Company and its controlled entities:

- Mr Mark Rowsthorn
- Mr Harold Keith Price
- Mr Gilberto Maggiolo
- Mr Marcus Pillhofer
- Mr Mark McSweeney

No premiums were paid in respect of former directors of the Company.

The insurance policies outlined above do not contain details of the premiums paid in respect of individual officers of the Company.

## 10. Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

## 11. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 62 and forms part of the directors' report for the financial year ended 30 June 2012.

## 12. Rounding off

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:

| | |
|---|---|
| Mr Harold Keith Price | Mr Mark Rowsthorn |
| Director | Director |

Dated at Mackay on the 26th day of October 2012.

# McAleese Limited

## Consolidated statement of financial position

### As at 30 June 2012

| *in thousands of dollars* | Note | 2012 | 2011 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 17 | 18,351 | 2,719 |
| Trade and other receivables | 16 | 112,539 | 36,598 |
| Inventories | 15 | 12,629 | 568 |
| Other investments, including derivatives | 13 | 3,600 | - |
| Current tax assets | | 178 | 394 |
| Other assets | | 6,648 | 1,545 |
| **Total current assets** | | **153,945** | **41,824** |
| Other investments, including derivatives | 13 | 5,504 | 7,505 |
| Deferred tax assets | 14 | 5,034 | 44 |
| Property, plant and equipment | 11 | 355,848 | 186,843 |
| Other assets | | - | 10 |
| Intangible assets and goodwill | 12 | 88,390 | 6,994 |
| **Total non-current assets** | | **454,776** | **201,396** |
| **Total assets** | | **608,721** | **243,220** |
| **Liabilities** | | | |
| Trade and other payables | 23 | 69,778 | 21,218 |
| Loans and borrowings | 20 | 50,048 | 73,461 |
| Current tax liabilities | | 5,454 | - |
| Employee provisions | 21 | 22,650 | 5,583 |
| Other provisions | 22 | 417 | - |
| **Total current liabilities** | | **148,347** | **100,262** |
| Financial instruments - interest rate swaps | 13 | 1,930 | - |
| Loans and borrowings | 20 | 359,661 | 43,344 |
| Employee provisions | 21 | 2,168 | 504 |
| Other provisions | 22 | 150 | - |
| Deferred tax liabilities | 14 | 15,309 | 17,113 |
| **Total non-current liabilities** | | **379,218** | **60,961** |
| **Total liabilities** | | **527,565** | **161,223** |
| **Net assets** | | **81,156** | **81,997** |
| **Equity** | | | |
| Share capital | 19 | 52,252 | 4,500 |
| Reserves | | (1,057) | 225 |
| Retained earnings/(accumulated losses) | | 24,471 | 70,841 |
| **Total equity attributable to equity holders of the Company** | | **75,666** | **75,566** |
| Non-controlling interest | | 5,490 | 6,431 |
| **Total equity** | | **81,156** | **81,997** |

*The notes on pages 10 to 58 are an integral part of these consolidated financial statements.*

# McAleese Limited

## Consolidated statement of comprehensive income

### For the year ended 30 June 2012

| *in thousands of dollars* | Note | 2012 | 2011 |
|---|---|---|---|
| Sales revenue | 7a | 330,909 | 146,921 |
| Other income | 7b | 6,063 | 1,540 |
| Direct costs | | (129,221) | (55,346) |
| Employee benefits expense | | (113,448) | (43,096) |
| Depreciation and amortisation expense | 9 | (18,302) | (13,181) |
| Other expenses | 8 | (59,136) | (15,717) |
| **Profit/(loss) from operating activities before finance costs and income tax** | | **16,865** | **21,121** |
| Finance income - interest on cash and cash equivalents | | 283 | 173 |
| Finance costs - interest on borrowings | | (16,025) | (7,675) |
| Early redemption of convertible note costs | | (566) | - |
| Change in fair value of available for sale investments | | (2,001) | - |
| Change in fair value of derivatives | | (1,400) | - |
| Interest on unwind CHAMP notes | | (1,260) | - |
| Interest on convertible loan notes | | (4,976) | - |
| **Net finance costs** | | **(25,945)** | **(7,502)** |
| **Profit/(loss) from continuing operations before income tax** | | **(9,080)** | **13,619** |
| Tax expense | 14 | (8,662) | (4,132) |
| **Profit/(loss) from continuing operations** | | **(17,742)** | **9,487** |
| **Other comprehensive income** | | | |
| Revaluation of property, plant and equipment | | - | (11,312) |
| Net losses on cash flow hedges | | (1,931) | - |
| Translation of foreign operations | | 70 | - |
| Tax on other comprehensive income | | 579 | 3,394 |
| **Other comprehensive income/(loss), net of tax** | | **(1,282)** | **(7,918)** |
| **Total comprehensive income/(loss) for the year** | | **(19,024)** | **1,569** |
| **Profit/(loss) attributable to:** | | | |
| Owners of the Company | | (17,551) | 9,487 |
| Non-controlling interests | | (191) | - |
| **Profit/(loss) for the year** | | **(17,742)** | **9,487** |
| **Total comprehensive income/(loss) attributable to:** | | | |
| Owners of the Company | | (18,833) | 1,569 |
| Non-controlling interest | | (191) | - |
| **Total comprehensive income/(loss) for the year** | | **(19,024)** | **1,569** |
| Basic earnings/(loss) per share (dollars) | 10 | (29.89) | 16.74 |
| Diluted earnings/(loss) per share (dollars) | 10 | (29.89) | 16.74 |

*The notes on pages 10 to 58 are an integral part of these consolidated financial statements.*

# McAleese Limited

## Consolidated statement of changes in equity

### For the year ended 30 June 2012

| *in thousands of dollars* | Note | Ordinary Share Capital | Convertible Loan Notes | SHARE CAPITAL | Capital Reserves | Asset Revaluation Reserve | Foreign Currency Translation Reserve | Cash Flow Hedge Reserve | TOTAL RESERVES | Retained Earnings / (accumulated losses) | TOTAL EQUITY | Non-Controlling Interest | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **Attributable to Owners of the Company** | | | | | | | | | | | |
| | | **Share Capital** | | | **Reserves** | | | | | | | | |
| **Balance at 1 July 2010** | | 4,500 | - | **4,500** | **225** | **21,193** | - | - | **21,418** | **86,150** | **112,068** | - | **112,068** |
| **Total comprehensive income for the** | | | | | | | | | | | | | |
| Profit | | - | - | - | - | - | - | - | - | 9,487 | **9,487** | - | **9,487** |
| Total other comprehensive income | | - | - | - | - | (7,918) | - | - | **(7,918)** | - | **(7,918)** | - | **(7,918)** |
| **Total comprehensive income for the year** | | - | - | - | - | **(7,918)** | - | - | **(7,918)** | **9,487** | **1,569** | - | **1,569** |
| **Transactions with owners of the Company, recorded directly in equity** | | | | | | | | | | | | | |
| Dividends to owners of the Company | | - | - | - | - | - | - | - | - | (10,017) | **(10,017)** | - | **(10,017)** |
| Outside interest in subsidiaries on restructure | | - | - | - | - | - | - | - | - | - | - | 6,431 | **6,431** |
| Equity contributed on restructure | | - | - | - | - | - | - | - | - | (2,021) | **(2,021)** | - | **(2,021)** |
| Arising on tranfer to Property Holdings | | - | - | - | - | - | - | - | - | (26,033) | **(26,033)** | - | **(26,033)** |
| Realised on transfer of property | | - | - | - | - | (13,275) | - | - | **(13,275)** | 13,275 | - | - | - |
| **Total contributions by and distributions to owners of the Company** | | - | - | - | - | **(13,275)** | - | - | **(13,275)** | **(24,796)** | **(38,071)** | **6,431** | **(31,640)** |
| **Balance at 30 June 2011** | | **4,500** | - | **4,500** | **225** | - | - | - | **225** | **70,841** | **75,566** | **6,431** | **81,997** |
| **Balance at 1 July 2011** | | **4,500** | - | **4,500** | **225** | - | - | - | **225** | **70,841** | **75,566** | **6,431** | **81,997** |
| **Total comprehensive income for the period** | | | | | | | | | | | | | |
| Profit/(loss) | | - | - | - | - | - | - | - | - | (17,551) | **(17,551)** | (191) | **(17,742)** |
| Total other comprehensive income | | - | - | - | - | - | 70 | (1,352) | **(1,282)** | - | **(1,282)** | - | **(1,282)** |
| **Total comprehensive income for the year** | | - | - | | - | - | **70** | **(1,352)** | **(1,282)** | **(17,551)** | **(18,833)** | **(191)** | **(19,024)** |
| **Transactions with owners of the Company, recorded directly in equity** | | | | | | | | | | | | | |
| Additional Share Issue | 19 | 3,552 | - | **3,552** | - | - | - | - | - | - | **3,552** | - | **3,552** |
| Share capital arising on incorporation of parent | 19 | 800 | - | **800** | - | - | - | - | - | (800) | - | - | - |
| Dividends to owners of the Company | 19 | - | - | - | - | - | - | - | - | (30,000) | **(30,000)** | (750) | **(30,750)** |
| Issue of Convertible Loan Notes | 19 | - | 54,800 | **54,800** | - | - | - | - | - | - | **54,800** | - | **54,800** |
| Share buy-back | 19 | - | (11,400) | **(11,400)** | - | - | - | - | - | - | **(11,400)** | - | **(11,400)** |
| Arising on the redemption of convertible note | 20 | - | - | - | - | - | - | - | - | 1,981 | **1,981** | - | **1,981** |
| **Total contributions by and distributions to owners of the Company** | | **4,352** | **43,400** | **47,752** | - | - | - | - | - | **(28,819)** | **18,933** | **(750)** | **18,183** |
| **Balance at 30 June 2012** | | **8,852** | **43,400** | **52,252** | **225** | - | **70** | **(1,352)** | **(1,057)** | **24,471** | **75,666** | **5,490** | **81,156** |

*The notes on pages 10 to 58 are an integral part of these consolidated financial statements.*

## McAleese Limited

# Consolidated statement of cash flows

### For the year ended 30 June 2012

| *in thousands of dollars* | Note | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 343,916 | 155,016 |
| Cash paid to suppliers and employees | | (299,143) | (127,525) |
| Interest received | | 283 | 173 |
| Interest paid | | (14,187) | (7,675) |
| Taxes (paid)/received | | (5,218) | 545 |
| **Net cash from operating activities** | 18 | **25,651** | **20,534** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | 7,070 | 858 |
| Loan payments to related parties | | (344) | 7,139 |
| Acquisition of subsidiaries, net of cash acquired | 6 | (238,912) | 13 |
| Acquisition of property, plant and equipment | | (26,397) | (3,214) |
| Acquisition of investments | | - | (3,359) |
| Purchase of option to acquire a company | 13 | (5,000) | - |
| Purchase of intangible assets | | (79) | (79) |
| **Net cash from/(used) in investing activities** | | **(263,662)** | **1,358** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 324,745 | 7,149 |
| Repayment of borrowings | | (18,823) | (354) |
| Transaction costs for the establishment of debt facilities | | (14,175) | - |
| Proceeds from exercise of share options | | 3,552 | - |
| Payment for share buy-back | | (11,400) | - |
| Proceeds from issue of convertible notes | | 100,000 | - |
| Transactions costs of issue of convertible notes | | (2,511) | - |
| Payment of lease liabilities | | (96,995) | (18,398) |
| Dividends paid | | (30,750) | (10,017) |
| **Net cash from/(used in) financing activities** | | **253,643** | **(21,620)** |
| **Net decrease in cash and cash equivalents** | | 15,632 | 272 |
| Cash and cash equivalents at 1 July | | 2,719 | 2,447 |
| **Cash and cash equivalents at 30 June** | 17 | **18,351** | **2,719** |

*The notes on pages 10 to 58 are an integral part of these consolidated financial statements.*

## 1. Reporting entity

McAleese Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 102 Farrellys Road Paget, Qld, Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2012 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is a for-profit entity and primarily is involved in the transport and logistics industry.

## 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 (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 26 October 2012.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments and available for sale financial assets which are measured at fair value in the statement of financial position.

### (c) Functional and presentation currency

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

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

### (d) Group restructure

McAleese Limited was incorporated on 19 March 2012 and did not undertake any trading activities between incorporation and 3 April 2012 when it became the non-operating holding company of McAleese HoldCo Pty Ltd (McAleese HoldCo) and its controlled entities, by issuing shares to McAleese Group Pty Ltd (McAleese Group) in exchange for the existing shares in McAleese HoldCo.

Up until 30 June 2011, Harbrew Pty Ltd (Harbrew) was the parent of the operations and McAleese Group was the ultimate parent holding the majority of the shares in Harbrew. On 19 March 2012, McAleese HoldCo was incorporated and the existing shareholders entered into a share sale agreement on 2 April 2012 under which all issued Harbrew shares were transferred to McAleese HoldCo in exchange for the issue of McAleese HoldCo shares.

On 3 April 2012 the shareholders of McAleese HoldCo entered into a share sale agreement to sell the shares held in McAleese HoldCo to McAleese Limited in exchange for the issue of McAleese Limited shares.

Immediately following the restructure, McAleese Limited became the parent entity of the operations. The consolidated financial statements of McAleese Limited have been prepared as a continuation of the financial statements of Harbrew Pty Ltd. Accordingly, consolidated comparative information is provided for

## 2. Basis of preparation (continued)

### (d) Group restructure (continued)

the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and related information as at 30 June 2011 of Harbrew Pty Ltd and its controlled entities.

### (d) Use of estimates and judgements

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

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

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 6 – acquisition of subsidiary
- Note 11 – property, plant and equipment
- Note 12 – intangible assets and goodwill

### (e) Changes in accounting policies

No changes in accounting policies have been made.

## 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 except where certain comparative amounts in the consolidated statement of comprehensive income have been reclassified to conform with the current year's presentation.

### (a) Basis of consolidation

#### (i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

## 3. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

### (i) Business combinations (continued)

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity.

Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

### (ii) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

### (iii) Subsidiaries

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

### (iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

### (v) 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 gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### (b) Foreign currency

### (i) Foreign currency transactions

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

**(b) Foreign currency (continued)**

**(ii) Foreign operations**

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

Foreign currency differences arising on retranslation are recognised in profit or loss except for differences in respect of qualifying cash flow hedges to the extent the hedge is effective which are recognised in other comprehensive income.

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

The income and expenses of foreign operations in hyperinflationary economies are translated to Australian dollars at the exchange rate at the reporting date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, their financial statements for the current period are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the translation reserve in equity.

**(c) Financial instruments**

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

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

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

## 3. Significant accounting policies (continued)

### (c) Financial instruments (continued)

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

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

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

*Financial assets at fair value through profit or loss*

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management policy.

Attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

*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 (see note 3(i)(i)).

Loans and receivables comprise cash and cash equivalents and, 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.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(i)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve in equity. When an investment is derecognised, the cumulative gain or loss in equity is reclassified to profit or loss.

*Available-for-sale financial assets comprise equity securities*

Financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs.

## 3. Significant accounting policies (continued)

### (c) Financial instruments (continued)

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

Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

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

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

### (ii) Share capital

*Ordinary shares*

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

### (iii) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued is fixed.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest related to the financial liability is recognised in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

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

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

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

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

## 3. Significant accounting policies (continued)

### (c) Financial instruments (continued)

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

*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 a recognised asset or liability or a highly probable forecast transaction that could effect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

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

*Separable embedded derivatives*

Changes in the fair value of separable embedded derivatives are recognised immediately 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.

### (d) Property, plant and equipment

### (i) Property

Land and buildings are measured at fair value, less accumulated depreciation on buildings and any impairment losses recognised after the date of revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation increment is credited to the asset revaluation reserve in equity, except to the extend that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

### (ii) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

## 3. Significant accounting policies (continued)

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

### (ii) Plant and equipment (continued)

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

| | |
|---|---|
| • buildings | 20 to 40 years |
| • plant and equipment | 2 to 20 years |
| • leased plant and equipment | 4 to 20 years |

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income. Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

### (e) Intangible assets and goodwill

### (i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 3(a)(i).

*Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses.

### (ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs 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. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

### (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 accumulated impairment losses.

### (iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

## 3. Significant accounting policies (continued)

### (e) Intangible assets and goodwill (continued)

#### (v) Amortisation

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

The estimated useful lives for the current and comparative years are as follows:

| | |
|---|---|
| • capitalised R&D | 1 to 5 years |
| • customer relationships | 3 to15 years |
| • customer contracts | 1 to 2 years |
| • software | 4 to 5 years |

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

### (f) Leased assets

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

### (g) Inventories

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

### (h) Construction contracts in progress

Construction contracts in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date (see note 3(l)(iii)) less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction contracts in progress is presented as part of trade and other receivables in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as deferred income/revenue in the statement of financial position.

## 3. Significant accounting policies (continued)

### (i) Impairment

### (i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

*Financial assets measured at amortised cost*

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

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

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

*Available-for-sale financial assets*

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

## 3. Significant accounting policies (continued)

### (i) Impairment

#### (ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite life intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (j) Employee benefits

#### (i) 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 plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated or government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

#### (ii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. 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. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

## 3. Significant accounting policies (continued)

### (j) Employee benefits (contined)

#### (iii) Short-term employee 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.

### (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. The unwinding of the discount is recognised as finance cost.

#### (i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

### (l) Revenue

#### (i) 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, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, 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. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

#### (ii) 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. The stage of completion is assessed by reference to labour hours or days incurred to date as a percentage of total estimated labour hours or days for each contract which is determined by a set quotation with the customer. As the contracts are reasonably short, there is only a small amount of outstanding at balance date, as such the level of judgement required is minimal. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### (iii) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

## 3. Significant accounting policies (continued)

### (l) Revenue (continued)

#### (iii) Construction contracts (continued)

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

### (n) Leases

#### (i) 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.

#### (ii) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

### (o) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, gains on the remeasurement to fair value of any pre-existing interest in an acquire. Interest income is recognised as it accrues in profit or loss, 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, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

## 3. Significant accounting policies (continued)

### (p) Tax

### (i) Income tax

Tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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

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 and associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future
- taxable temporary differences arising on the initial recognition of goodwill.

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

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

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.

Additional income tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised. The Group does not distribute non-cash assets as dividends to its shareholders.

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is McAleese Limited.

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

**(p) Tax (continued)**

**(ii) Goods and Services Tax (GST)**

Revenues, expenses, assets and liabilities are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- receivables and payables, which are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

## 4. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 *Financial Instruments*, which becomes mandatory for the Group's 2016 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

## 5. Determination of fair values

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

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

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

## 5. Determination of fair values (continued)

### (ii) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

### (iii) Inventories

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

### (iv) Equity securities

The fair value of equity securities is determined by reference to their quoted closing bid price at the reporting date.

### (v) Trade and other receivables

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

### (vi) Forward rate contracts and interest rate swaps

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a credit-adjusted risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes 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.

### (vii) Other non-derivative financial liabilities

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

### (Viii) Contingent consideration

The fair value of contingent consideration is calculated using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). Since the contingent consideration is long-term in nature, it is discounted to present value.

## 6. Acquisitions of subsidiary

On 5 April 2012 the Group purchased International Energy Services Holdings Pty Ltd, a leading provider of transport logistics services by acquiring 100% of the issued capital the company. The Group was deemed to take control of International Energy Services from 5 April 2012.

Taking control of International Energy Services Holdings Pty Ltd will enable the Group to gain significant competitive advantage in servicing the resource and the fuel handling industries. The acquisition is expected to provide the Group with an increased share of the transport and logistics market through access to the acquiree's customer base. The Group also expects to reduce costs through economies of scale.

In the 3 months to 30 June 2012 International Energy Services Holdings Pty Ltd contributed revenue of $117,717,000 and net profit of $275,000 to the Group's result. If the acquisition had occurred on 1 July 2011, management estimates that the contribution to consolidated revenue would have been $452,802,000 and the contribution to consolidated profit for the period would have been $3,680,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2011.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

| **Consideration transferred**<br>*in thousands of dollars* | |
|---|---|
| Cash | 238,912 |
| Loan notes issued | 28,700 |
| **Total consideration transferred** | **267,612** |

### Identifiable assets acquired and liabilities assumed

| *in thousands of dollars* | **Note** | **Book value** | **Fair value adjustment** | **Provisional fair value** |
|---|---|---|---|---|
| Trade receivables | | 47,798 | - | 47,798 |
| Inventories | | 14,468 | 459 | 14,927 |
| Deferred tax assets | 14 | (1,236) | 5,320 | 4,084 |
| Other current assets | | 6,781 | - | 6,781 |
| Property, plant and equipment | 11 | 143,659 | 1,326 | 144,985 |
| Intangible assets | 12 | 814 | 11,377 | 12,191 |
| Trade and other payables | | (42,153) | - | (42,153) |
| Current provisions | | (15,182) | - | (15,182) |
| Non current provisions | | (1,464) | - | (1,464) |
| **Total net identifiable assets** | | **153,485** | **18,482** | **171,967** |

The fair value of assets acquired and liabilities assumed have been determined on a provisional basis pending completion of the purchase price adjustment.

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amount for provisions, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

## 6. Acquisitions of subsidiary (continued)

### Goodwill

Goodwill was recognised as a result of the acquisition as follows:

| *in thousands of dollars* | **Note** | |
|---|---|---|
| Total consideration transferred | | 267,612 |
| Fair value of identifiable assets | | 171,967 |
| | 12 | **95,645** |

The goodwill is attributable mainly to the skills and technical talent of International Energy Services Holdings Pty Ltd's work force, and the competitive advantages expected to be achieved from integrating the company into the Group's existing business. None of the goodwill recognised is expected to be deductible for tax purposes.

### Acquisition-related costs

The Group incurred acquisition related costs of $7,841,000 relating to external legal fees and due diligence costs. These legal fees and due diligence costs have been included in 'Acquisition Costs' in the Group's consolidated statement of comprehensive income.

### Acquisitions in 2011

On 31 January 2011, the Group acquired 100% of the fixed assets and trade name of Legend Cranes Pty Ltd (Legend Cranes), an entity based in Australia, specialising in crane hire services. The Group acquired this business to expand its crane hire presence in New South Wales.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

| **Consideration transferred** | |
|---|---|
| *in thousands of dollars* | |
| Cash | 3,359 |
| Contingent consideration liability | 600 |
| **Total consideration transferred** | **3,959** |

### Identifiable assets acquired and liabilities assumed

| *in thousands of dollars* | **Fair value** |
|---|---|
| Property, plant and equipment | 9,641 |
| Lease liabilities | (9,641) |
| **Total net identifiable assets** | - |

### Goodwill

Goodwill was recognised as a result of the acquisition as follows:

| *in thousands of dollars* | **Note** | |
|---|---|---|
| Total consideration transferred | | 3,959 |
| Fair value of identifiable assets | | - |
| | 12 | **3,959** |

The goodwill is attributable mainly to the skills and technical talent of Legend Cranes Pty Ltd's work force, and the synergies expected to be achieved from integrating the company into the Group's existing business. None of the goodwill recognised is expected to be deductible for tax purposes.

## 7a. Sales revenue

| *in thousands of dollars* | 2012 | 2011 |
|---|---|---|
| Sale of goods | 20,014 | 1,769 |
| Rendering of services | 310,895 | 145,152 |
| | **330,909** | **146,921** |

## 7b. Other income

| *in thousands of dollars* | 2012 | 2011 |
|---|---|---|
| Net gain on sale of property, plant and equipment | 1,420 | 490 |
| Fuel Rebate | 3,797 | 1,050 |
| Foreign Exchange Gain | 172 | - |
| Miscellaneous | 674 | - |
| | **6,063** | **1,540** |

## 8. Other expenses

| *in thousands of dollars* | | 2012 | 2011 |
|---|---|---|---|
| **Individually significant items** | | | |
| Impairment expense | 12 | 25,382 | - |
| Revaluation of properties | 11 | - | 7,827 |
| Acquisition costs | 6 | 7,841 | 741 |
| Stamp duty on acquisition of legend cranes | | - | 220 |
| Net flood costs | | - | 203 |
| **Total individually significant items** | | **33,223** | **8,991** |
| Impairment loss on trade receivables | | 2,589 | 208 |
| Rent Premises | | 9,357 | 1,065 |
| Other Expenses | | 13,967 | 5,453 |
| | | **59,136** | **15,717** |

## 9. Depreciation and amortisation expense

| *in thousands of dollars* | Note | 2012 | 2011 |
|---|---|---|---|
| Depreciation of property, plant and equipment | 11 | 16,987 | 13,079 |
| Amortisation of intangible assets | 12 | 1,315 | 102 |
| | 18 | **18,302** | **13,181** |

## 10. Earnings per share

| *in thousands of dollars* | 2012 | 2011 |
|---|---|---|
| Basic earnings per share (dollars) | (29.89) | 16.74 |
| Diluted earnings per share (dollars) | (29.89) | 16.74 |
| Weighted average number of shares on issues used in calculation of basic earnings per share | 587,243 | 566,670 |
| Weighted average number of shares on issues used in calculation of diluted earnings per share | 587,243 | 566,670 |
| Earnings used in calculating basic and diluted earnings per share (in thousands of dollars) | (17,551) | 9,487 |

Potential ordinary shares on issues are anti-dilutive given the loss for the financial period.

## 11. Property, plant and equipment

| *in thousands of dollars* | Note | Land and buildings | Plant and equipment | Leased plant and equipment | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 July 2010 | | 73,236 | 80,353 | 99,533 | 253,122 |
| Additions | | 1,083 | 2,116 | 30,972 | 34,171 |
| From holding company on restructure | | 397 | 10,378 | 39,260 | 50,035 |
| Disposals | | - | (1,084) | - | (1,084) |
| To holding company on restructure | | (55,181) | - | - | (55,181) |
| Impairment losses taken to Income Statement | | (7,827) | - | - | (7,827) |
| Impairment losses taken direct to equity | | (11,312) | - | - | (11,312) |
| Transfers | | - | 6,437 | (6,437) | - |
| **Balance at 30 June 2011** | | **396** | **98,200** | **163,328** | **261,924** |
| Balance at 1 July 2011 | | 396 | 98,200 | 163,328 | 261,924 |
| Acquisitions through business combinations | 6 | 17,228 | 127,757 | - | 144,985 |
| Additions | | 44 | 30,686 | 15,670 | 46,400 |
| Disposals | | - | (11,363) | - | (11,363) |
| Transfers | | - | 132,240 | (132,240) | - |
| Effect of movements in exchange rates | | 15 | 162 | - | 177 |
| **Balance at 30 June 2012** | | **17,683** | **377,682** | **46,758** | **442,123** |
| **Depreciation** | | | | | |
| Balance at 1 July 2010 | | (28) | (35,244) | (12,128) | (47,400) |
| Depreciation for the year | | (773) | (5,912) | (6,394) | (13,079) |
| To holding company on restruture | | 801 | - | - | 801 |
| From holding company on restructure | | (32) | (5,861) | (10,167) | (16,060) |
| Disposals | | - | 657 | - | 657 |
| Transfers | | - | (2,918) | 2,918 | - |
| **Balance at 30 June 2011** | | **(32)** | **(49,278)** | **(25,771)** | **(75,081)** |
| Balance at 1 July 2011 | | (32) | (49,278) | (25,771) | (75,081) |
| Depreciation for the year | | (58) | (12,406) | (4,523) | (16,987) |
| Disposals | | - | 5,891 | - | 5,891 |
| Transfer | | - | (21,167) | 21,167 | - |
| Effect of movements in exchange rates | | (2) | (96) | - | (98) |
| **Balance at 30 June 2012** | | **(92)** | **(77,056)** | **(9,127)** | **(86,275)** |
| **Carrying amounts** | | | | | |
| At 1 July 2010 | | 73,208 | 45,109 | 87,405 | 205,722 |
| At 30 June 2011 | | 364 | 48,922 | 137,557 | 186,843 |
| **At 30 June 2012** | | **17,591** | **300,626** | **37,631** | **355,848** |

## 11. Property, plant and equipment (continued)

**Impairment loss and subsequent reversal**

No impairment losses were recognised or reversed during the period (2011: $0).

**Leased plant and machinery**

The Group leases production equipment under a number of finance lease agreements. Some leases provide the Group with the option to purchase the equipment at a beneficial price. The leased equipment secures lease obligations (see note 20). At 30 June 2012 the net carrying amount of leased plant and equipment was $37,631,000 (2011: $137,557,000).

**Security**

At 30 June 2012 property, plant and equipment with a carrying amount of $318,217,000 (2011: $49,286,000) are subject to a registered debenture to secure bank loans (see note 20).

**Change in estimates**

Until 1 July 2011, the Group utilised the Australian Tax Office guidance for determining the effective life of an asset and estimated a residual value of $nil based on industry trends at the time. Upon review of this treatment, the Group determined that the application of a $nil residual value needed to be reassessed as changes in market conditions had resulted in increases in residual values as evidenced by large profits being recognised upon disposal of certain assets.

As a result, the Group reassessed the residual values applied to each asset based on management's understanding of the industry and based on available industry data. The Group has determined that the change in residual values meets the definition of a change in estimate under AASB 116 property, plant and equipment on the basis that the information was not previously available to reliable estimate an uplift in residual values.

The change in estimates has had the effect of reducing the depreciation expense for the financial year ending 30 June 2012 by approximately $7 million.

**Change in classification**

During the financial year the Consolidated Group paid out finance leases of $96,995,000 and transferred the corresponding assets from leased plant and equipment to plant and equipment.

## 12. Intangible assets and goodwill

| *in thousands of dollars* | Note | Goodwill | Capitalised R&D | Customer Relationships | Customer Contracts | Software | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance at 1 July 2010 | | 2,766 | - | - | - | 626 | 3,392 |
| Acquisitions | | - | - | - | - | 79 | 79 |
| Acquisitions through business combinations | | 3,959 | - | - | - | - | 3,959 |
| **Balance at 30 June 2011** | | **6,725** | **-** | **-** | **-** | **705** | **7,430** |
| Balance at 1 July 2011 | | 6,725 | - | - | - | 705 | 7,430 |
| Acquisitions through business combinations | 6 | 95,645 | - | 6,645 | 4,732 | 814 | 107,836 |
| Adjustment of previous business combination | | 47 | - | - | - | - | 47 |
| Acquisitions | | - | 133 | - | - | 77 | 210 |
| Impairment losses taken to Income Statement | 8 | (25,382) | | | | | (25,382) |
| **Balance at 30 June 2012** | | **77,035** | **133** | **6,645** | **4,732** | **1,596** | **90,141** |
| **Amortisation** | | | | | | | |
| Balance at 1 July 2010 | | - | - | - | - | (334) | (334) |
| Amortisation for the year | | - | - | - | - | (102) | (102) |
| **Balance at 30 June 2011** | | **-** | | **-** | **-** | **(436)** | **(436)** |
| Balance at 1 July 2011 | | - | - | - | - | (436) | (436) |
| Amortisation for the year | | - | - | (392) | (759) | (164) | (1,315) |
| **Balance at 30 June 2012** | | **-** | **-** | **(392)** | **(759)** | **(600)** | **(1,751)** |
| **Carrying amounts** | | | | | | | |
| **at 1 July 2010** | | 2,766 | - | - | - | 292 | 3,058 |
| **at 30 June 2011** | | 6,725 | - | - | - | 269 | 6,994 |
| **at 30 June 2012** | | **77,035** | **133** | **6,253** | **3,973** | **996** | **88,390** |

### Impairment testing for cash-generating units containing goodwill

As required under AASB 136 *Impairment of Assets*, the Consolidated Group performs an impairment assessment when there is an indication or "trigger" of a possible impairment of its non-current assets and in addition, at least annually performs an impairment review of goodwill and indefinite life intangible assets, regardless of whether an impairment trigger has been identified. An impairment review was undertaken as at 30 June 2012.

For the purpose of impairment testing for goodwill and indefinite life intangible assets, cash generating units ("CGU's") are identified. CGU's are the smallest group of assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. The aggregate carrying amounts of goodwill allocated to each CGU after impairment are as follows:

| *in thousands of dollars* | 2012 | 2011 |
|---|---|---|
| Specialised transport and logistics | 6,772 | 6,725 |
| Bulk transport services | 47,225 | - |
| Cootes transport group | 23,038 | - |
| | **77,035** | **6,725** |

Impairment testing has been undertaken on a value in use basis whereby the net present value of the future cash flows of each CGU is compared against the carrying amount of net operating assets of that CGU.

## 12. Intangible assets and goodwill (continued)

**Impairment testing for cash-generating units containing goodwill (continued)**

*Cash flow forecasts*

Cash flow projections are based on the latest financial forecasts for the financial year ending 30 June 2013 and the latest management estimates of financial forecasts for the financial years ending 30 June 2014 and 30 June 2015.

*Key assumptions used in discounted cash flow projections*

Key assumptions used in the calculation of recoverable amounts are discount rates and the terminal value growth rates. These assumptions are as follows:

*Discount rate*

A pre-tax discount rate determined by reference to the Group's weighted average cost of capital has been used in discounting the projected cash flows.

Pre-tax discount rates have been assessed at 17.4%.

*Terminal value growth rate*

The divisions have 5 years of cash flows included in their discounted cash flow models. A long-term growth rate into perpetuity of 2.5% has been determined as the lower of the nominal Australian GDP and the long-term compound annual growth rate in EBITDA estimated by management.

*Results*

An impairment charge of $25,382,000 was recognised against the carrying value of the Cootes Transport Group CGU. The impairment was caused by an unexpected deterioration in the CGU's financial performance towards the end of the financial year ended 30 June 2012 and a continuing trend of deterioration of financial performance in the first quarter of the financial year ending 30 June 2013. This impairment was recognised directly against the goodwill.

Impact on value-in-use calculations had key assumptions increased or decreased by 1 percent:

| *in thousands of dollars* | | Discount rate | | Terminal value growth rate | |
|---|---|---|---|---|---|
| | **Headroom** | **Higher 1%** | **(Lower -1%)** | **Higher 1%** | **(Lower -1%)** |
| Specialised transport and logistics | 249,200 | (47,492) | 59,374 | 50,400 | (40,344) |
| Bulk transport services | 5,100 | (11,605) | 14,406 | 11,869 | (9,513) |
| Cootes transport group | - | (9,984) | 12,490 | 10,632 | (8,510) |

The Group has determined that there is no impairment of any of its other CGU's containing goodwill or intangible assets with indefinited useful lives.

## 13. Other investments, including derivatives

| *in thousands of dollars* | 2012 | 2011 |
|---|---|---|
| **Assets** | | |
| **Non-current** | | |
| Equity securities - available for sale | 5,504 | 7,505 |
| | **5,504** | **7,505** |
| **Current** | | |
| Option to acquire LCR | 3,600 | - |
| | **3,600** | - |
| **Liabilities** | | |
| **Non-current** | | |
| Financial instruments - interest rate swaps | 1,930 | - |
| | **1,930** | - |
| **Current** | | |
| Financial instruments - interest rate swaps | - | - |
| | - | - |

The option to acquire LCR Holdco Pty Limited, represents a $5,000,000 option to acquire a group that is held by CHAMP Pty Ltd which expires on 31 December 2012. This option is recognised at fair value through profit or loss with fair value losses since recognition of $1,400,000.

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 24.

## 14. Taxes

### Current tax expense

| *in thousands of dollars* | 2012 | 2011 |
|---|---|---|
| **Tax recognised in profit or loss** | | |
| **Current tax expense** | | |
| Current year | 10,793 | (9,969) |
| Adjustment for prior periods | - | - |
| | **10,793** | **(9,969)** |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | (2,131) | 6,639 |
| Tax on Capital Loss | - | (2,348) |
| Property Revaluation and Transfer | - | 9,810 |
| | **(2,131)** | **14,101** |
| Tax expense from continuing operations | **8,662** | **4,132** |

### Tax recognised in other comprehensive income

| *in thousands of dollars* | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Before tax | Tax (expense) / benefit | Net of tax | Before tax | Tax (expense) / benefit | Net of tax |
| Foreign currency translation differences for foreign operations | 70 | - | 70 | - | - | - |
| Revaluation of property, plant and | - | - | - | (11,312) | 3,394 | (7,918) |
| Cash flow hedges | (1,931) | 579 | (1,352) | - | - | - |
| Available-for-sale financial assets | - | - | - | - | - | - |
| | **(1,861)** | **579** | **(1,282)** | **(11,312)** | **3,394** | **(7,918)** |

## 14. Taxes (continued)

### Reconciliation of effective tax rate

| *in thousands of dollars* | 2012 | 2012 | 2011 | 2011 |
|---|---|---|---|---|
| Profit/(loss) for the period | | (17,742) | | 9,487 |
| Total tax expense | | 8,662 | | 4,132 |
| Profit/(loss) excluding tax | | **(9,080)** | | **13,619** |
| Tax using the Company's domestic tax rate | 30.0% | (2,724) | 30.0% | 4,086 |
| Effect of tax rates in foreign jurisdictions | 0.7% | (67) | 0.0% | - |
| Non-deductible expenses | -1.7% | 158 | 0.3% | 46 |
| Impairment losses | -83.9% | 7,615 | 0.0% | - |
| Capital Loss on Revaluation | -6.6% | 600 | 0.0% | - |
| Fair Value adjustment on LCR Option | -4.6% | 420 | 0.0% | - |
| Interest on unwind of Champ Notes | -4.2% | 378 | 0.0% | - |
| Convertible Notes Equity/Debt/andExpenses | -10.0% | 910 | 0.0% | - |
| Current year losses for which no deferred tax asset was recognised | -3.2% | 287 | 0.0% | - |
| Change in recognised deductible temporary differences | -4.8% | 438 | 0.0% | - |
| Other | -7.1% | 647 | 0.0% | - |
| | **-95.4%** | **8,662** | **30.3%** | **4,132** |

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

| *in thousands of dollars* | 2012 | 2011 |
|---|---|---|
| Deductible temporary differences | 4,437 | - |
| Deductible temporary differences capital in nature | 8,635 | - |
| Tax losses | 6,757 | - |
| | **19,829** | - |

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| *in thousands of dollars* | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Property, plant and equipment | - | - | 31,844 | 48,343 | **(31,844)** | **(48,343)** |
| Inventories | 149 | - | - | 161 | **149** | **(161)** |
| Loans and borrowings | 6,906 | 28,814 | - | - | **6,906** | **28,814** |
| Employee benefits | 7,403 | 1,826 | - | - | **7,403** | **1,826** |
| Other provisions | 464 | 91 | | | **464** | **91** |
| Other items | 6,021 | 437 | - | - | **6,021** | **437** |
| Tax loss carry-forwards | 626 | 267 | - | - | **626** | **267** |
| Tax (assets) liabilities | **21,569** | **31,435** | **31,844** | **48,504** | **(10,275)** | **(17,069)** |
| Set off of tax | (16,535) | (31,391) | (16,535) | (31,391) | - | - |
| **Net tax assets/(liabilities)** | **5,034** | **44** | **15,309** | **17,113** | **(10,275)** | **(17,069)** |

## 14. Taxes (continued)

### Movement in deferred tax balances during the year

| *in thousands of dollars* | Balance 1 July 2010 | Recognised in profit or loss | Recognised in other comprehensive income | Arising / transfer on restructure | Balance 30 June 2011 | Recognised in profit or loss | Recognised in other comprehensive income | Acquired in business combinations (Note 6) | Fair value adjustments (Note 6) | Balance 30 June 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| Property, plant and equipment | (42,440) | (10,172) | 3,394 | 875 | (48,343) | 18,530 | - | (6,688) | 4,657 | (31,844) |
| Inventories | (154) | (2) | - | (5) | (161) | (71) | - | (283) | 664 | 149 |
| Loans and borrowings | 19,187 | 3,905 | - | 5,722 | 28,814 | (21,908) | - | - | - | 6,906 |
| Employee provisions | 1,149 | (509) | - | 1,186 | 1,826 | 832 | - | 4,745 | - | 7,403 |
| Other provisions | 70 | (41) | - | 62 | 91 | 335 | - | 37 | 1 | 464 |
| Other items | 215 | 110 | - | 112 | 437 | 4,054 | 579 | 953 | (2) | 6,021 |
| Capital tax loss carry-forwards | 146 | - | - | (146) | - | - | - | - | - | - |
| Tax loss carry-forwards | - | 70 | - | 197 | 267 | 359 | - | - | - | 626 |
| | **(21,827)** | **(6,639)** | **3,394** | **8,003** | **(17,069)** | **2,131** | **579** | **(1,236)** | **5,320** | **(10,275)** |

## 15. Inventories

| *in thousands of dollars* | 2012 | 2011 |
|---|---|---|
| Raw materials and consumables | 1,854 | 568 |
| Work in progress | 1,298 | - |
| Finished goods | 9,477 | - |
| **Carrying amount of inventories** | **12,629** | **568** |

During the financial period ended 30 June 2012 the write-down of inventories to net realisable value amounted to $222,003 (2011: $0) and inventory costs recognised in direct costs amounted to $12,779,187 (2011: $0).

## 16. Trade and other receivables

| *in thousands of dollars* | 2012 | 2011 |
|---|---|---|
| Trade receivables | 108,314 | 36,744 |
| Less provision for impairment of receivables | (6,162) | (307) |
| Construction WIP | 3,603 | - |
| Other receivables | 6,784 | 161 |
| **Trade and Other Receivables** | **112,539** | **36,598** |

At 30 June 2012 aggregate costs incurred under open construction contracts and recognised profits, net of recognised losses, amounted to $4,934,336 (2011: $0).

The Group's exposure to credit and currency risks, and impairment losses related to trade and other receivables, excluding construction contracts in progress, is disclosed in note 24.

## 17. Cash and cash equivalents

| *in thousands of dollars* | 2012 | 2011 |
|---|---|---|
| Bank balances | 18,351 | 2,719 |
| **Total cash and cash equivalents** | **18,351** | **2,719** |
| Bank overdrafts used for cash management purposes | - | (871) |
| **Cash and cash equivalents in the statement of cash flows** | **18,351** | **1,848** |

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 24.

## 18. Reconciliation of cash flows from operating activities

| *in thousands of dollars* | Note | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) for the period | | (17,742) | 9,487 |
| Adjustments for: | | | |
| Impairment losses | 8a | 25,382 | - |
| Depreciation and amortisation costs | 9 | 18,302 | 13,181 |
| Amortisation of borrowing costs | | 1,309 | - |
| Impairment of investments | | 2,001 | - |
| Unwinding of CHAMP notes | | 1,260 | - |
| Fair value adjustment to option to acquire a company | | 1,400 | - |
| Discount on convertible notes issued | | 4,976 | - |
| Gain on sale of property, plant and equipment | | (1,420) | (490) |
| Loss on assets destroyed in flood | | - | 74 |
| Cornerstone investor costs | | 566 | - |
| Other | | 326 | - |
| | | **36,360** | **22,252** |
| Changes in assets and liabilities due to restructure | | - | 13,416 |
| Change in inventories | | 419 | (28) |
| Change in trade and other receivables | | (26,420) | (6,721) |
| Change in other assets | | 1,607 | (408) |
| Change in trade and other payables | | 7,546 | (305) |
| Change in provisions and employee benefits | | 2,695 | (1,763) |
| **Cash generated from operating activities** | | **22,207** | **26,443** |
| Movement in tax balances | | 3,444 | (5,909) |
| **Net cash from operating activities** | | **25,651** | **20,534** |

## 19. Share capital and reserves

*In thousands of dollars*

| **Details** | **Number of ordinary shares on issue** | **Value of ordinary shares** |
|---|---|---|
| **Opening balance 1 July 2010** | **566,670** | **4,500** |
| **Closing balance 30 June 2011** | **566,670** | **4,500** |
| **Opening balance 1 July 2011** | **566,670** | **4,500** |
| Issued to Ultimate Parent (i) | 12,000 | 12 |
| Issued to shareholders (ii) | 16,884 | 3,540 |
| Change in legal capital structure from Harbrew Pty Ltd to McAleese HoldCo Pty Ltd | | |
| Shares at incorporation | 3 | - |
| Elimination of existing shares | (595,554) | (8,052) |
| Share issuance | 595,551 | 8,052 |
| Change in legal capital structure from McAleese HoldCo Pty Ltd to McAleese Limited | | |
| Shares at incorporation | 3 | - |
| Elimination of existing shares | (595,554) | (8,052) |
| Share issuance | 595,551 | 8,052 |
| Share buy-back (iii) | - | (11,400) |
| Arising on incorporation of parent entity (iv) | - | 800 |
| Convertible Loan Notes (v) | - | 54,800 |
| **Closing balance 30 June 2012** | **595,554** | **52,252** |

(i) During the period the Company issued 12,000 ordinary shares to the ultimate parent for $1 per share.

## 19. Share capital and reserves (continued)

(ii) The Company issued 1,484 shares to Marcus Pillhofer and 15,400 shares to Harold Keith Price when these directors reinvested a portion of the dividend that they were paid during the financial period. These shares were issued at $209.63 each.

(iii) Following the implementation of the demerger for the McAleese Group Pty Ltd, McAleese Limited will execute a share buy-back for 50,600 shares from DCMF Pty Ltd in full satisfaction of the DCMF loan. All voting and dividend rights associated with these shares are suspended.

(iv) Due to the incorporation of McAleese Limited an uplift in share capital of $800,000 occurred.

(v) During the financial year Mark Rowsthorn invested $100,000,000 in McAleese Limited in return for 477,020 convertible notes which may be converted to into 477,020 ordinary shares. A portion of this $100,000,000 has been recognised in borrowings (see note 20) and the remainder has been classified in share capital.

### *Ordinary shares*

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. All shares rank equally with regard to the Company's residual assets.

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 meetings of the Company.

### *Foreign currency translation reserve*

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign operation.

### *Cash flow hedge reserve*

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet affected profit or loss.

### *Asset revaluation reserve*

The asset revaluation reserve relates to the revaluation of property, plant and equipment prior to its reclassification as investment property.

### *Dividends*

The following dividends were declared and paid by the Group:

| *in thousands of dollars* | **Dollars per share** | **Total amount** | **Date of payment** |
|---|---|---|---|
| **2012** | | | |
| Ordinary shares | $51.84 | 30,000 | 18 October 2011 |
| Non-controlling interest in dividends paid by subsidiary | $0.93 | 750 | 29 November 2011 |
| **Total amount** | | **30,750** | |
| **2011** | | | |
| Ordinary shares | $17.67 | 10,017 | 30 June 2011 |
| **Total amount** | | **10,017** | |

After 30 June 2012 the franking account balance was $2,197,000 (2011: $0). No dividends were proposed by the directors at balance date.

### 20. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 24.

| *in thousands of dollars* | 2012 | 2011 |
|---|---|---|
| **Current liabilities** | | |
| Secured bank loans | 12,549 | 14,003 |
| Secured bank overdraft | - | 871 |
| Commercial bill | - | 3,949 |
| Hire purchase liability secured | - | 473 |
| Champ loan notes | 30,489 | - |
| Finance lease liabilities | 7,010 | 54,165 |
| | **50,048** | **73,461** |
| **Non-current liabilities** | | |
| Secured bank loans | 299,330 | - |
| Convertible loan notes # | 46,251 | - |
| Hire purchase liability secured | - | 1,462 |
| Finance lease liabilities | 14,080 | 41,882 |
| | **359,661** | **43,344** |

# During the financial year, a director related entity invested $100,000,000 in McAleese Limited in return for 477,020 convertible notes which may be converted to into 477,020 ordinary shares at the option of the holder. The redemption date of these notes is 31 March 2016. As shown in the below table, a portion of the $100,000,000 has been recognised in share capital and the remainder has been classified in non-current borrowings.

| *in thousands of dollars* | Note | 2012 | 2011 |
|---|---|---|---|
| Amounts recognised in equity: | | | |
| Amount recognised in share capital | 19 | 54,800 | - |
| Amount recognised in retained earnings on redemption of convertible notes | | 1,981 | - |
| Amount recognised in non-current borrowings | | 46,251 | - |
| Deemed interest accrued in trade and other payables | | (4,976) | - |
| Transaction costs | | 2,510 | - |
| Early redemption of convertible note costs | | (566) | - |
| | | **100,000** | - |

The Champ loan notes have an initial maturity date of 30 June 2013. If the notes are not redeemed by the initial maturity date the maturity date may be extended to the earlier of an Initial Public Offering of the Group or 31 December 2015.

## 20. Loans and borrowings (continued)

### Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings were as follows:

| *in thousands of dollars* | Currency | Year of maturity | 30 June 2012 Face value | 30 June 2012 Carrying amount | 30 June 2011 Face value | 30 June 2011 Carrying amount |
|---|---|---|---|---|---|---|
| Secured bank loan | AUD | 2015 | 80,000 | 80,000 | - | - |
| Secured bank loan | AUD | 2015 | 190,000 | 190,000 | - | - |
| Secured bank loan | AUD | 2015 | 15,000 | 15,000 | - | - |
| Secured bank loan | AUD | 2015 | 4,073 | 4,073 | - | - |
| Secured bank loan | AUD | 2015 | 35,672 | 35,672 | - | - |
| Secured bank loan | AUD | 2011 | - | - | 2,846 | 2,846 |
| Secured bank loan | | 2011 | | | 11,157 | 11,157 |
| Secured bank overdraft | AUD | 2011 | - | - | 871 | 871 |
| Commerial bill | AUD | 2011 | - | - | 3,949 | 3,949 |
| Hire purchase liability secured | AUD | 2013 | - | - | 1,935 | 1,935 |
| Convertible loan notes | AUD | 2016 | 100,000 | 46,251 | - | - |
| Champ loan notes | AUD | 2013 | 35,000 | 30,489 | - | - |
| Finance lease liabilities | AUD | 2015 | 21,090 | 21,090 | 96,047 | 96,047 |
| **Total interest-bearing liabilities** * | | | **480,835** | **422,575** | **116,805** | **116,805** |

* Total interest-bearing liabilities are offset by $12,866,000 of capitalised facility fees at balance date.

The bank loans are secured over land and buildings with a carrying amount of $318,217,000 (2011: $49,286,000) (see note 11). The finance lease liabilities are secured over lease plant and equipment with a carrying value of $37,631,000 (2011: $137,557,000) (see note 11).

The Champ loan notes have an initial maturity date of 30 June 2013. If the notes are not redeemed by the initial maturity date the maturity date may be extended to the earlier of an Initial Public Offering of the Group or 31 December 2015.

### Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

| *in thousands of dollars* | Future minimum lease payments 2012 | Interest 2012 | Present value of minimum lease payments 2012 | Future minimum lease payments 2011 | Interest 2011 | Present value of minimum lease payments 2011 |
|---|---|---|---|---|---|---|
| Less than one year | 8,414 | 1,404 | 7,010 | 59,407 | 5,242 | 54,165 |
| Between one and five years | 15,024 | 944 | 14,080 | 46,578 | 4,696 | 41,882 |
| More than five years | - | - | - | - | - | - |
| | **23,438** | **2,348** | **21,090** | **105,985** | **9,938** | **96,047** |

## 21. Employee provisions

| *in thousands of dollars* | 2012 | 2011 |
|---|---|---|
| **Current liability** | | |
| Liability for annual leave | 14,912 | 3,346 |
| Liability for sick leave | 994 | 889 |
| Liability for long-service leave | 6,402 | 1,106 |
| Liability for RDO | 342 | 242 |
| **Total current employee provisions** | **22,650** | **5,583** |
| | | |
| **Non-current liability** | | |
| Liability for long-service leave | 2,168 | 504 |
| **Total non-current employee provisions** | **2,168** | **504** |

## 22. Other provisions

| *in thousands of dollars* | 2012 | 2011 |
|---|---|---|
| **Current liability** | | |
| Warranty provisions | 257 | - |
| Onerous leases | 160 | - |
| **Total other current provisions** | **417** | - |
| | | |
| **Non-current Liability** | | |
| Onerous leases | 150 | - |
| **Total other non current provisions** | **150** | - |

### Warranties

The provision for warranties relates mainly to goods sold during the year ended 30 June 2012. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to incur this liability over the next year.

### Onerous leases

The Group entered into 3 non-cancellable leases for commercial and residential properties which, due to changes in its activities, the Group ceased to use by 30 June 2012. The leases expire in 2013 and 2015. The obligation for the future payments has been provided for.

## 23. Trade and other payables

| *In thousands of dollars* | 2012 | 2011 |
|---|---|---|
| ***Current liabilities*** | | |
| Trade payables | 33,635 | 11,679 |
| Other payables and accrued expenses | 26,848 | 5,871 |
| Other related parties | 1,505 | 2,675 |
| Construction work in progress | 1,522 | - |
| Employee payables | 6,268 | 993 |
| | **69,778** | **21,218** |

## 24. Financial instruments

### Financial risk management

*Overview*

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

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

*Risk Management framework*

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit, Business Risk and Compliance Committee (the Audit Committee), which is responsible for developing and monitoring Group's risk management policies. The Audit 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 their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit, Business Risk and Compliance 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.

### Credit risk

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

*Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

| | | Carrying amount | |
|---|---|---|---|
| *In thousands of dollars* | **Note** | **2012** | **2011** |
| Trade and other receivables | 16 | 112,539 | 36,598 |
| Cash and cash equivalents | 17 | 18,351 | 2,719 |
| | | **130,890** | **39,317** |

*Trade and other receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

## 24. Financial instruments (continued)

### Credit risk (continued)

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.

Impairment losses

The aging of the trade and other receivables at the reporting date that were not impaired was as follows:

| *In thousands of dollars* | 2012 | 2011 |
|---|---|---|
| Neither past due nor impaired | 74,938 | 18,907 |
| Past due 1 - 30 days | 24,882 | 13,400 |
| Past due 31 - 90 days | 9,308 | 2,229 |
| Past due greater than 90 days | 9,573 | 2,369 |
| | **118,701** | **36,905** |

At 30 June 2012 an impairment provision of $6,162,000 (2011: $307,000) was recognised. At balance date $4,173,000 relates to a customer that went into administration of which $2,941,000 relates to trade receivables acquired as part of the acquisition of International Energy Services Pty Ltd (see note 6). The remainder of the impairment provision at 30 June 2012 relates to several customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historic payment behaviour and extensive analysis of customer credit risk, including the underlying customers' credit ratings, when available.

Based on the Group's monitoring of customer credit risk, the Group believes that, except as indicated above, no impairment allowance is necessary in respect of trade receivables not past due.

*Cash and cash equivalents*

The Group held cash and cash equivalents of $18,351,000 at 30 June 2012 (2011: $2,719,000), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties.

*Guarantees*

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries (see note 27). At 30 June 2012 no other guarantees were outstanding (2011: none).

## 24. Financial instruments (continued)

### Liquidity risk

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

The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash outflows on financial liabilities (other than trade payables). The Group also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

In addition, the Group maintains the following lines of credit:

- $0 million overdraft facility that is unsecured (2011: $1.0 million, interest payable at the ANZ Reference Rate less 270 basis points).
- $75.9 million that is undrawn at balance date. The facility has a maturity date in 2015 (2011: no undrawn facilities were available that the Group could draw on at their own discretion).

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

**30 June 2012**

| *In thousands of dollars* | Note | Carrying amount | Contractual cash flows | 2 mths or less | 2-12 mths | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | | |
| Secured bank loans | 20 | 311,879 | 399,949 | 3,924 | 36,628 | 46,738 | 312,659 | - |
| Convertible notes | 20 | 46,251 | 100,000 | - | - | - | 100,000 | - |
| CHAMP loan notes | 20 | 30,489 | 37,539 | - | 37,539 | - | - | - |
| Finance lease liabilities | 20 | 21,090 | 23,438 | 1,402 | 7,012 | 9,621 | 5,403 | - |
| Trade payables | 23 | 69,778 | 69,778 | 69,778 | - | - | - | - |
| | | **479,487** | **630,704** | **75,104** | **81,179** | **56,359** | **418,062** | - |
| **Derivative financial liabilities** | | | | | | | | |
| Interest rate swaps used for hedging | 13 | 1,930 | 2,037 | 17 | 12 | 2,008 | - | - |
| | | **1,930** | **2,037** | **17** | **12** | **2,008** | - | - |

## 24. Financial instruments (continued)

### Liquidity risk (continued)

**30 June 2011**

| *In thousands of dollars* | Note | Carrying amount | Contractual cash flows | 2 mths or less | 2-12 mths | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | | |
| Secured bank loans | 20 | 14,003 | 14,532 | 792 | 13,740 | - | - | - |
| Commercial bills | 20 | 3,949 | 4,039 | 61 | 3,978 | - | - | - |
| Finance lease liabilities | 20 | 96,047 | 105,985 | 9,705 | 49,697 | 19,125 | 27,458 | - |
| Hire purchase liabilities | 20 | 1,935 | 2,141 | 99 | 497 | 547 | 998 | - |
| Trade payables | 23 | 21,218 | 21,218 | 21,218 | - | - | - | - |
| Bank overdraft | 20 | 871 | 871 | 871 | - | - | - | - |
| | | **138,023** | **148,786** | **32,746** | **67,912** | **19,672** | **28,456** | - |

The interest payments on variable interest rate loans in the table above reflect market forward interest rates at the period end and these amounts may change as market interest rates change. The future cash flows on derivative instruments may be different from the amount in the above table as interest rates or the relevant conditions underlying the contingency change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

### 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 buys and sells 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 Audit, Business Risk and Compliance Committee. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

*Currency risk*

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar (AUD), but also the Singapore dollar and United States dollar. The currencies in which these transactions primarily are denominated are AUD, SGD and USD.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

## 24. Financial instruments (continued)

### Market risk (continued)

*Currency risk (continued)*

*Exposure to currency risk*

The summary of quantitative data about the Group's exposure to foreign currency risk provided to management of the Group based on its risk management policy was as follows:

| *In thousands of (AUD Equivalent)* | AUD | SGD | USD | AUD | SD | USA |
|---|---|---|---|---|---|---|
| | | 30 June 2012 | | | 30 June 2011 | |
| Trade receivables | - | - | 549 | - | - | - |
| Secured bank loans | - | - | - | - | - | - |
| Unsecured loans # | 4,476 | - | 17,284 | - | - | - |
| Trade payables | 225 | - | 219 | - | - | - |
| **Net statement of financial position exposure** | **4,701** | - | **18,052** | - | - | - |

# Unsecured loans includes intercompany loans between group entities that have different functional currencies.

The following significant exchange rates applied during the year:

| | Average rate | | Reporting date spot rate | |
|---|---|---|---|---|
| *AUD* | 2012 | 2011 | 2012 | 2011 |
| SGD | 1.3006 | n/a | 1.2924 | n/a |
| USD | 1.0406 | n/a | 1.0161 | n/a |

*Sensitivity analysis*

A strengthening (weakening) of the AUD, as indicated below, against the USD and SGD at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases

| | Strenghtening | | Weakening | |
|---|---|---|---|---|
| *Effect in thousands of dollars* | Equity | Profit or loss | Equity | Profit or loss |
| **30 June 2012** | | | | |
| SGD (10% percent movement) | - | - | - | - |
| USD (10% percent movement) | - | 383 | - | (468) |

## 24. Financial instruments (continued)

### Market risk (continued)

*Interest rate risk*

*Cash flow sensitivity analysis for financial instruments*

The Group adopts a policy of hedging its exposure to changes in interest rates on by entering into interest rate swaps.

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

| | Profit after tax Higher/(Lower) | | Equity Higher/(Lower) | |
|---|---|---|---|---|
| *Effect in thousand of dollars* | **2012** | **2011** | **2012** | **2011** |
| +1% pa (100 basis points) | 599 | 286 | 234 | - |
| -1% pa (100 basis points) | (599) | (286) | (234) | - |

*Other market price risk*

Equity price risk arises from available-for-sale equity securities held. Management of the Group monitors the equity securities based on market indices. Buy and sell decisions are approved by the Group Audit, Business Risk and Compliance Committee.

The Group's equity investment is listed on the Australian Securities Exchange. A 10 percent increase in the ASX 200 at the reporting date would have increased profit by $385,000 after tax (2011: an increase of $525,000); an equal change in the opposite direction would have decreased profit by $385,000 after tax (2011: a decrease of $525,000). The analysis is performed on the same basis for 2011 and assumes that all other variables remain the same.

### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, retained earnings and non-controlling interests of the Group. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Group's net debt to adjusted equity ratio at the reporting date was as follows:

| *in thousands of dollars* | **2012** | **2011** |
|---|---|---|
| Total liabilities | 527,565 | 161,223 |
| Less: cash and cash equivalents | (18,351) | (2,719) |
| **Net debt** | **509,214** | **158,504** |
| | | |
| Total equity | 81,156 | 81,997 |
| Less: amounts accumulated in equity relating to cash flow hedges | (1,352) | - |
| **Adjusted equity** | **79,804** | **81,997** |
| **Net debt to adjusted equity ratio at 30 June 2012** | **6.38** | **1.93** |

There were no changes in the Group's approach to capital management during the year.

## 24. Financial instruments (continued)

### Accounting classifications and fair values

*Fair value hierarchy*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quotes prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| *In thousands of dollars* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **30 June 2012** | | | | |
| Equity securities | 5,504 | - | - | **5,504** |
| Financial assets designated as at fair value through profit or loss | - | - | 3,600 | **3,600** |
| **Total assets** | **5,504** | - | **3,600** | **9,104** |
| Interest rate swap used for hedging | - | 1,930 | - | **1,930** |
| **Total liabilities** | - | **1,930** | - | **1,930** |
| **30 June 2011** | | | | |
| Equity securities | 7,505 | - | - | **7,505** |
| **Total assets** | **7,505** | - | - | **7,505** |

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

| *In thousands of dollars* | Level 3 |
|---|---|
| **2012** | |
| **Balance at 1 July** | - |
| Acquisitions during the period | 5,000 |
| Total gains and losses recognised in: | (1,400) |
| **Balance at 30 June** | **3,600** |

Change in fair value of level 3 assets of $1,400,000 relates to the straight-line amortisation of the asset at balance date and is recognised as part of finance cost in the consolidated statement of comprehensive income.

## 25. Operating leases

### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

| *in thousands of dollars* | 2012 | 2011 |
|---|---|---|
| Less than one year | 12,450 | 1,182 |
| Between one and five years | 27,759 | 981 |
| More than five years | 23,437 | 294 |
| | **63,646** | **2,457** |

The Group leases a number of depots, residential premises and factory facilities under operating leases. The leases typically run for a period of one to ten years, with an option to renew the lease after that date. Lease payments are increased every year to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

During the year $9,133,458 was recognised as an expense in profit or loss in respect of operating leases (2011: $1,015,004), excluding leases that are on month to month terms.

The depots, residential properties and factory leases were entered into many years ago as combined leases of land and buildings. The Group determined that the land and building elements of the warehouse and factory leases are operating leases. The rent paid to the landlord is increased to market rent at regular intervals, and the Group does not participate in the residual value of the land and buildings. As a result it was determined that substantially all the risks and rewards of the buildings are with the landlord.

The Group did not sublease any properties during the period.

## 26. Capital commitments

The Group had contractual obligations to purchase property, plant and equipment of $18,405,817 at balance date (2011: $4,284,922). These commitments are expected to be settled within 12 months from balance date. The 2011 commitments were settled during the period.

## 27. Contingencies

To date the Company has not completed the purchase price adjustment for the acquisition of International Energy Services Pty Ltd. Given the inherent uncertainty around the settlement amount until agreed by the relevant parties the Group is unable to make any definitive determination regarding the amount of any purchase price adjustment at the date of this report.

The Group has given indemnities of $1,150,172 in the form of bank guarantees and letters of credit in the ordinary course of business.

## 28. Related parties

**Parent and ultimate controlling party**

During the financial year the McAleese Group underwent a restructure that resulted in the formation of McAleese Limited. McAleese Limited acquired Harbrew Pty Ltd and its subsidiaries as a common control transaction during the period.

At balance date the ultimate controlling entity of the Company is McAleese Group Pty Ltd, incorporated in Australia.

**Directors**

The names of the members of the Board who have held office during the 12 months to 30 June 2012 are:

- Mr Mark Rowsthorn
- Mr Harold Keith Price
- Mr Gilberto Maggiolo
- Mr Marcus Pillhofer
- Mr Mark McSweeney

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or joint control were as follows:

- During the financial year McAleese Limited issued 477,020 convertible notes to entities associated with Mark Rowsthorn. These notes have a nominal value of $100,000,000 million. At balance date deemed interest of $4,976,000 has been accrued on these notes.
- Harold Keith Price held the position of Managing Director of McAleese Limited for the financial period. At the date of this report entities associated with Harold Keith Price held shares of 15,400 in the Company and 124,540 shares in the Company's parent. Harold Keith Price is also a director of McAleese Group and McAleese Property Holdings – refer below for transactions with these companies.
- At the date of this report entities associated with Gilberto Maggiolo held 114,530 shares in the Company's parent. Gilberto Maggiolo is also a director of McAleese Group, McAleese Property Holdings, BOMA, Epoca and Azzuro.
- Marcus Pillhofer held the position of Chief Financial Officer during the financial period. At the date of this report entities associated with Marcus Pillhofer held shares of 1,484 in the Company and 12,000 shares in the Company's parent. Marcus Pillhofer is also a director of McAleese Group and McAleese Property Holdings – refer below for transactions with these companies.
- The Group used the services of Mark McSweeney in relation to consulting work during the financial year.  Amounts of $49,770 (2011:115,820) were billed based on normal market rates for such services and are due and payable under normal payment terms. No amounts remain unpaid at balance date.

## 28. Related parties (continued)

### Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the organisation. The Company has identified 8 positions (2011: 6 positions) that meet this definition.

Key management personnel compensation during the year ended 30 June 2012 was:

| *In dollars* | 2012 | 2011 |
|---|---|---|
| Short term benefits | 1,037,707 | 835,781 |
| Post employment benefits | - | - |
| Share based payments | - | - |
| Other long term benefits | - | - |
| **Total** | **1,037,707** | **835,781** |

### Other related party transactions

| | Sales | Purchases | Amounts owed by related parties | Amounts owed to related parties |
|---|---|---|---|---|
| **2012** | 1,047,169 | 8,452,964 | 182,586 | 60,530 |
| **2011** | 725,587 | 1,108,132 | 143,063 | 332,907 |

### Terms and conditions of transactions with related parties

All transactions with other related parties are conducted on commercial terms and conditions.

No allowances for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Loans to or from related parties are unsecured.

## 29. Group entities

### Significant subsidiaries

| | *Notes* | Country of incorporation | Ownership interest |
|---|---|---|---|
| | | | 2012 |
| McAleese Holdco Pty Ltd | | Australia | 100% |
| Harbrew Pty Limited | | Australia | 100% |
| McAleese Subco Pty Limited | | Australia | 100% |
| McAleese Investments Pty Limited | | Australia | 100% |
| Walter Wright Cranes Pty Limited | | Australia | 100% |
| National Crane Hire Pty Limited | # | Australia | 50% |
| National Crane Service & Repairs Pty Limited | # | Australia | 50% |
| McAleese Finance Pty Ltd | | Australia | 100% |
| International Energy Services Holdings Pty Limited | | Australia | 100% |
| International Energy Services Pty Ltd | | Australia | 100% |
| Liquip International Pty Limited | | Australia | 100% |
| Liquip Fuel Handling India Private Limited | | India | 100% |
| International Energy Services Group Pty Ltd | | Australia | 100% |
| Beta Fluid Systems, Inc. | | USA | 100% |
| Cootes Transport Group Pty Limited | | Australia | 100% |
| IES DGM Pty Ltd | | Australia | 100% |
| Spotswood Lessee Pty Ltd | | Australia | 100% |
| International Energy Services Asia Pte Ltd | | Singapore | 100% |
| Watt Wah Petroleum Haulage Pte Ltd | | Singapore | 100% |
| IES Resources Pty Ltd | | Australia | 100% |

# Although the Group owns 50% of National Crane Hire Pty Ltd and consequently has half of the voting power, it is able to govern the financial and operating policies of the company by virtue of an agreement with the other investors of National Crane Hire Pty Ltd. Consequently, the Group consolidates its investment in the company.

The McAleese Limited Group and the parent entity were established during the financial year. See disclosure in Note 1. The financial year of all controlled entities is the same as that of the Consolidated Entity, unless otherwise noted.

## 30. Subsequent events

There are no material subsequent events.

## 31. Auditors' remuneration

| *In dollars* | 2012 | 2011 |
|---|---|---|
| **Audit of financial statements** | | |
| Auditors of the Company - KPMG | 335,000 | - |
| Auditors of the Company - Ernst & Young | - | 105,000 |
| **Total audit of financial statements services** | **335,000** | **105,000** |
| | | |
| **Review of financial statements** | | |
| Auditors of the Company - KPMG | - | - |
| Auditors of the Company - Ernst & Young | 50,000 | - |
| **Total review of financial statements services** | **50,000** | - |
| | | |
| **Other services** | | |
| Auditors of the Company - KPMG # | 191,745 | - |
| Auditors of the Company - Ernst & Young # | - | 4,350 |
| **Total other services** | **191,745** | **4,350** |

# Other services provided by the auditors for the Consolidated Group during the period primarily relate to other assurance, taxation and due diligence services.

## 32. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and directors' report.

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 became a party to the Deed on 25 June 2012, by virtue of a Deed of Assumption are:

- McAleese Holdco Pty Ltd
- Harbrew Pty Ltd
- McAleese Finance Pty Ltd
- International Energy Services Holdings Pty Ltd
- International Energy Services Pty Ltd
- Liquip International Pty Ltd
- Cootes Transport Group Pty Ltd
- IES Resources Pty Ltd

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, at 30 June 2012 is set out as follows:

## 32. Deed of cross guarantee (continued)

**Statement of comprehensive income and retained profits**

| *in thousands of dollars* | **2012** |
|---|---|
| Sales revenue | 306,836 |
| Other income | 3,839 |
| Direct Costs | (120,491) |
| Employee benefits expense | (95,665) |
| Deprecitation and amortisation expense | (14,009) |
| Other expenses | (61,364) |
| **Profit from operating activities before finance costs and income tax** | **19,146** |
| Finance income - interest on cash and cash equivalents | 1,539 |
| Finance costs - interest on borrowings | (14,050) |
| Early redemption of converitble note costs | (566) |
| Change in fair value of derivative | (1,400) |
| Unwind of CHAMP notes | (1,260) |
| Interest on convertible notes | (4,976) |
| **Net finance costs** | **(20,713)** |
| **Profit from continuing operations before income tax** | **(1,567)** |
| Tax expense | (9,029) |
| **Profit from continuing operations** | **(10,596)** |
| **Other comprehensive income** | |
| Net gains/(losses) on cash flow hedges | (1,931) |
| Tax on other comprehensive income | 579 |
| **Other comprehensive income, net of tax** | **(1,352)** |
| **Total comprehensive income for the year** | **(11,948)** |
| **Profit attributable to:** | |
| Owners of the Company | (10,596) |
| Non-controlling interests | - |
| **Profit for the year** | **(10,596)** |
| **Total comprehensive income attributable to:** | |
| Owners of the Company | (11,948) |
| Non-controlling interest | - |
| **Total comprehensive income for the year** | **(11,948)** |

## 32. Deed of cross guarantee (continued)

### Statement of financial position

| *in thousands of dollars* | **2012** |
|---|---|
| **Current assets** | |
| Cash and cash equivalents | 17,758 |
| Trade and other receivables | 97,936 |
| Inventories | 12,562 |
| Other investments, including derivatives | 3,600 |
| Other assets | 6,648 |
| Intercompany | 44,398 |
| **Total current assets** | **182,902** |
| **Non-current assets** | |
| Other investments, including derivatives | 6,355 |
| Deferred tax assets | 5,034 |
| Property, plant and equipment | 313,656 |
| Intangible assets and goodwill | 88,390 |
| **Total non-current assets** | **413,435** |
| **Total assets** | **596,337** |
| **Current liabilities** | |
| Trade and other payables | 63,014 |
| Loans and borrowings | 53,549 |
| Current tax liabilities | 5,476 |
| Employee provisions | 17,970 |
| Other provisions | 439 |
| **Total current liabilities** | **140,448** |
| **Non-current liabilities** | |
| Trade and other payables | 1,930 |
| Loans and borrowings | 354,840 |
| Employee provisions | 1,780 |
| Deferred tax liabilities | 13,989 |
| **Total non-current liabilities** | **372,539** |
| **Total liabilities** | **512,987** |
| **Net assets** | **83,350** |
| **Equity** | |
| Share capital | 52,252 |
| Reserves | (1,127) |
| Retained earnings | 32,225 |
| **Total equity attributable to equity holders of the Company** | **83,350** |
| Non-controlling interest | - |
| **Total equity** | **83,350** |

## 33. Parent entity disclosures

The individual financial statements for the parent entity show the aggregate amounts below. As discussed in note 1, the Company was incorporated on 19 March 2012 and therefore there are no comparatives for the year ending 30 June 2012. Comparatives for the Group are for the Harbrew Pty Ltd Group for the year ended 30 June 2011, as this financial report has been prepared as a continuation of the financial statements of Harbrew Pty Ltd following the Group restructure.

| *in thousands of dollars* | **2012** |
|---|---|
| **Result of parent entity** | |
| Profit/(Loss) for the year | (2,476) |
| Other comprehensive income | - |
| **Total comprehensive income for the year** | **(2,476)** |
| | |
| **Financial position of parent entity at year end** | |
| Current assets | 98,575 |
| Total assets | 103,494 |
| | |
| Current liabilities | - |
| Total liabilities | 46,251 |
| | |
| **Total equity of parent entity comprising of:** | |
| Share capital | 59,719 |
| Capital reserve | - |
| Retain earnings | (2,476) |
| **Total equity** | **57,243** |

### Parent entity contingencies

There are no contingencies to be recognised by the Company.

### Parent entity capital commitments for acquisition of property plant and equipment

There are no capital commitments recognised at balance date by the Company (2011: $0).

### Parent entity guarantees in respect of the 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 32.

## 34. Segment information

The Group has 3 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 technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

- Specialised Transport and Logistics - Leading provider of heavy haulage, general freight transport and lifting solutions to the resources, industrial, infrastructure and construction industries. There are operations in each Australian state and the Northern Territory.
- Bulk Transport Services - Provider of ex-pit transport logistics and materials handling solutions to the Australian resources sector. It includes long and short road haulage services, on site logistics, warehousing, stockpile and road logistics management services. There are depots and infrastructure across sites located in Queensland, New South Wales and Western Australia with additional to operations in the Northern Territory.
- Oil & Gas Services – Leading transport logistics provider and manufacturer of specialist handling equipment for the fuels and hazardous liquids sector across Australia and Singapore. The operations are supported by terminal infrastructure in each Australian capital city (excluding Darwin and Hobart).

Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 3 of the financial statements.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the Group's CEO. Segment profit before finance costs and tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Finance costs and taxation expense are not allocated to a segment as they are not part of the core operations of any segment.

## 34. Segment information (continued)

| | Specialised Transport and Logistics | | Bulk Transport Services | | Oil & Gas Services | | Total Operating Segments | | Unallocated | | Total Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *in thousands of dollars* | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Sale of goods | 2,265 | 1,769 | 2,331 | - | 14,861 | - | 19,457 | 1,769 | 557 | - | 20,014 | 1,769 |
| Rendering of services | 214,318 | 145,152 | 38,395 | - | 57,895 | - | 310,608 | 145,152 | 287 | - | 310,895 | 145,152 |
| Inter-segment revenue | - | - | - | - | - | - | - | - | - | - | - | - |
| Other income | 2,679 | 1,540 | 83 | - | 674 | - | 3,436 | 1,540 | 2,627 | - | 6,063 | 1,540 |
| **Segment Income** | **219,262** | **148,461** | **40,809** | - | **73,430** | - | **333,501** | **148,461** | **3,471** | - | **336,972** | **148,461** |
| Direct costs | (77,923) | (55,346) | (15,071) | - | (30,362) | - | (123,356) | (55,346) | (5,865) | - | (129,221) | (55,346) |
| Employee benefits expense | (68,088) | (43,096) | (11,669) | - | (29,970) | - | (109,727) | (43,096) | (3,721) | - | (113,448) | (43,096) |
| Depreciation and amortisation expense | (10,890) | (13,181) | (2,646) | - | (3,662) | - | (17,198) | (13,181) | (1,104) | - | (18,302) | (13,181) |
| Impairment expense | - | (7,827) | - | - | (25,382) | - | (25,382) | (7,827) | - | - | (25,382) | (7,827) |
| Other expenses | (16,654) | (7,890) | (7,836) | - | (7,092) | - | (31,582) | (7,890) | (2,172) | - | (33,754) | (7,890) |
| **Reportable segment profit/(loss) before finance costs and tax** | **45,707** | **21,121** | **3,587** | - | **(23,038)** | - | **26,256** | **21,121** | **(9,391)** | - | **16,865** | **21,121** |
| Finance income - interest on cash and cash equivalents | | | | | | | | | | | 283 | 173 |
| Finance costs - interest on borrowings | | | | | | | | | | | (16,025) | (7,675) |
| Early redemption of convertible note costs | | | | | | | | | | | (566) | - |
| Change in fair value of available for sale investments | | | | | | | | | | | (2,001) | - |
| Change in fair value of derivatives | | | | | | | | | | | (1,400) | - |
| Interest on unwind of CHAMP notes | | | | | | | | | | | (1,260) | - |
| Interest on convertible loan notes | | | | | | | | | | | (4,976) | - |
| **Net finance costs** | | | | | | | | | | | **(25,945)** | **(7,502)** |
| **Profit/(loss) from continuing operations before income tax** | | | | | | | | | | | **(9,080)** | **13,619** |
| Tax expense | | | | | | | | | | | (8,662) | (4,132) |
| **Profit/(loss) from continuing operations** | | | | | | | | | | | **(17,742)** | **9,487** |
| Reportable segment assets | 288,087 | 243,220 | 131,789 | - | 253,654 | - | 673,530 | - | (64,809) | - | 608,721 | 243,220 |
| Reportable segment liabilities | (222,242) | (161,223) | (141,218) | - | (140,269) | - | (140,269) | - | (23,836) | - | (527,565) | (161,223) |

## Directors' declaration

1 In the opinion of the directors of McAleese Limited ('the Company'):

(a) the consolidated financial statements and notes that are set out on pages 6 to 58 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance, for the financial year ended on that date; and

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

(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 32 will be able to meet any obligations 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 draw attention to note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Mr Harold Keith Price
Director

Mr Mark Rowsthorn
Director

Dated at Mackay on the 26th day of October 2012.

# Independent auditor's report to the members of McAleese Limited

We have audited the accompanying financial report of McAleese Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2012, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 34 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

## *Directors' responsibility for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

## *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

## *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001, and

b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

KPMG

KPMG

Suzanne Bell
Partner

Melbourne
26 October 2012

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

To: the directors of McAleese Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

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

KPMG

KPMG

Suzanne Bell
Partner

Melbourne
26 October 2012