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BOART LONGYEAR LIMITED

A.B.N. 49 123 052 728

HALF-YEAR FINANCIAL REPORT

AND

APPENDIX 4D

FOR THE PERIOD ENDED 30 JUNE 2009

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Name of entity:	**BOART LONGYEAR LIMITED**
ABN or equivalent company reference:	**49 123 052 728**
Half year ended ('current period'):	**30 June 2009**
Half year ended ('previous corresponding period'):	**30 June 2008**

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Half-year ended 30 June			
	2009 US$'000	2008 US$'000	$ change	% change
Revenue from ordinary activities	462,895	985,216	(522,321)	-53.0%
Net (loss) profit from ordinary activities after tax attributable to members	(5,361)	111,740	(117,101)	-104.8%
Net (loss) profit after tax attributable to members	(5,361)	111,740	(117,101)	-104.8%

Brief explanation of any figures reported above:

Refer to the Directors' Report

Dividends per ordinary share paid or to be paid

	30 June 2009	30 June 2008
Dividends per ordinary share Interim dividend	0.0 cents	2.3 cents

Final dividends for the financial year ended 31 December provided for and paid during the interim period Final dividend	0.0 cents	1.5 cents

There were no dividends declared or paid in the half-year ended 30 June 2009.

Our interim ordinary dividend in respect of the half-year ended 30 June 2008 had a record date of 18 September 2008 and was paid on 16 October 2008. Our final ordinary dividend in respect of the financial year ended 31 December 2007 was provided for and paid during the half-year ended 30 June 2008; it had a record date of 20 March 2008 and was paid on 18 April 2008. Our interim and final ordinary dividends have been 35% franked at the Australian corporate tax rate of 30%.

Net Tangible Assets per share:

Current period:	(8.11) cents
Previous corresponding period:	2.46 cents

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DIRECTORS' REPORT

The Directors present their report together with the financial report of Boart Longyear Limited ("Boart Longyear" or the "Company") and its controlled entities (collectively the "Group" or the "Consolidated Entity") for the half-year ended 30 June 2009.

Financial results and information contained herein are presented in United States ("US") dollars unless otherwise noted.

DIRECTORS

The directors of the Company in office during the half-year and until the date of this report are:

Name
Graham Bradley
Bruce Brook
David Grzelak
Craig Kipp
David McLemore
Peter St George

PRINCIPAL ACTIVITIES

The Group is an integrated provider of drilling services and drilling products for customers in the mining and minerals, environmental and infrastructure, and energy industries. The Group conducts these activities through two operating divisions, known as the Global Drilling Services and Global Products divisions.

The Global Drilling Services division operates in over 40 countries. It provides services to a diverse customer base and offers a broad range of drilling technologies, including diamond core drilling, rotary drilling and sonic drilling, to suit its customers' requirements.

The Global Products division manufactures and sells capital equipment and consumables to customers in the drilling services industry globally. These products include rigs, coring tools and percussive tools.

REVIEW OF OPERATIONS

Financial performance

Total revenue for the half-year was $462,895,000, a decrease of 53% from the half-year ended 30 June 2008. The period-on-period decrease is primarily attributable to the ongoing worldwide economic slowdown that has negatively impacted our drilling services and products businesses.

The Global Drilling Services division generated revenue of $346,677,000, down 47% on the same period last year. Drilling rig utilization decreased and pricing was lower. Lower revenues were partially offset by lower operating costs and improved efficiency.

The Global Products division generated revenue of $116,218,000, down 65% on the same period last year. The decrease is primarily driven by a reduction in the sales volume of consumables and capital equipment. Lower general and administrative expenses and other costs partially offset the decline in revenue. Additionally, as part of the Group's restructuring initiatives, plants in Australia and South Africa were closed or sold.

The Group continued the initiative begun in 2008 to reduce operating costs through a series of restructuring activities. During the half-year ended 30 June 2009, the Group incurred costs of $8,316,000 for employee separation costs as well as costs related to occupancy reductions and other initiatives. General and administrative expenses of $55,952,000 were down 35% over the same period last year. Selling and marketing expenses of $37,110,000 were down 43% over the same period last year.

During the half-year, the Group sold its Sub Saharan African manufacturing operations in Roodepoort, South Africa. The sale also included the exclusive right to manufacture and sell certain of the Group's percussive rock drills and hard rock tools in

Sub Saharan Africa. The sale generated a loss of $3,872,000. The disposal is consistent with the Group's on-going strategy to divest select non-core assets.

Net loss after tax for the first half of the year was $5,361,000, down $117,101,000 when compared to the results for the first half of 2008.

Earnings (loss) per share in the first half of 2009 were (0.36) cents on a basic basis and diluted basis, compared to 7.44 cents on a basic basis and 7.43 cents on a diluted basis for the same period in 2008.

Going concern

The Group has outstanding bank debt totalling $837,000,000 as of 30 June 2009, of which $585,000,000 is due and payable on 10 April 2010. The remaining $252,000,000 of outstanding bank debt is due and payable on 13 April 2012. The amounts due and payable on 10 April 2010 have been disclosed as current liabilities as at 30 June 2009, which is consistent with the requirements of AASB 101 'Presentation of Financial Statements'. As a result, current liabilities exceed current assets by $260,925,000.

The Group has complied with all its bank covenants for the period ended 30 June 2009. The Directors have reviewed the Group's projections, which they believe are based on market data and past experience and expect that, based on those projections, and absent a re-capitalisation or a modification of the terms of the bank debt, the Group is likely to breach its Net Debt-to-Adjusted EBITDA leverage covenant (as defined in the bank agreement) as at 31 December 2009. No restrictions have been imposed by the banks on the use of the current debt facility and access to the facility continues to be made available in the ordinary course of business.

The financial report has been prepared on the basis that the Group is a going concern, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

In preparing the financial report on this basis, the Directors have had regard to the following:

- positive cash-flow projections for the Group;
- the significant actions taken to reduce operating costs and enhance cash flows;
- the absence of events of default under current borrowing facilities;
- continuation of payments to creditors on due date;
- the Group has entered into an agreement ("the Refinancing Agreement") with its lenders establishing the terms for a refinancing and amendment of the Group's credit facilities. The Refinancing Agreement is capable of being accepted by the Group until 15 September 2009 (unless extended) and if accepted will result in an extension of the maturity of all debt until April 2012. Completion of the Refinancing Agreement is subject to a number of conditions including a reduction of at least $275,000,000 in the current facility amount, as well as other requirements and approvals that are procedural in nature; and
- the Company has announced plans to raise up to $635,000,000 by way of a fully underwritten accelerated non-renounceable pro rata entitlement rights issue ("Entitlement Offer"), an institutional placement of ordinary shares ("Unconditional Placement") and an institutional placement of ordinary shares conditional on obtaining shareholder approval ("Conditional Placement") (together "the Capital Raising"). If the Conditional Placement is approved by shareholders, the Company will make an offer of ordinary shares for issue under a share purchase plan. The proceeds raised from the Capital Raising and the share purchase plan will be used primarily to repay existing bank debt.

  The gross proceeds under the Entitlement Offer and the Unconditional Placement (both of which are underwritten and neither of which requires shareholder approval) are expected to be approximately $442,000,000. This is in excess of the minimum level required to enable the Company to execute the terms of the Refinancing Agreement entered into with the Company's lenders, if it chooses.

  If the Conditional Placement is not approved by shareholders at the Extraordinary General Meeting on or about 24 September 2009 and the Group has not executed the terms of the Refinancing Agreement, then the Group may be required to seek alternative funding or negotiate with its lenders to refinance the remaining outstanding debt facilities which mature on 10 April 2010, estimated to be approximately $180,000,000 (assuming the full underwritten amount of

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$442,000,000 is received by the Company, less estimated transaction costs). The Directors have no reason to believe that the Group will not be able to secure alternative funding or negotiate a revised refinancing with its lenders in this circumstance.

The Directors believe that the Group is adequately positioned to manage its business risks successfully despite the current economic outlook and challenging environment. The Directors consider that the Group has the flexibility to react to changes in market conditions and that the Group's costs can be reduced or increased in line with changing circumstances in the business.

In light of all the matters set out above, the Directors believe that it is appropriate to prepare the financial report on a going concern basis.

Dividends

No dividends have been paid or declared during the period.

Disposals

During the half-year, the Group completed the sale of its Sub Saharan African manufacturing operations in Roodepoort, South Africa. The sale also included the exclusive right to manufacture and sell certain of the Group's percussive rock drills and hard rock tools in Sub Saharan Africa. The Group recognised a loss on the disposal of $3,872,000.

Future Developments

The Group has seen improving trends during the half-year ended 30 June 2009. Revenue and cash flow generation continue to increase, general and administrative expenses and direct costs have been lowered and rig utilisation and products orders have stabilized. Commodity prices continue to be strong and credit and equity markets appear to have started to recover.

The Group's focus will continue to remain on cost control and refinancing its debt.

Events After the Balance Sheet Date

Other than the matters discussed above, there has been no matter or circumstance that has arisen since the end of the half-year that has significantly affected, or may significantly affect, the operations of the Group, its results, or its operations or results in future financial years.

AUDITOR'S INDEPENDENCE DECLARATION

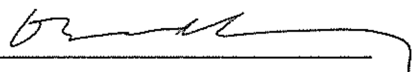
The Auditor's independence declaration is included on page 7 of this half-year financial report.

ROUNDING OF AMOUNTS

Boart Longyear Limited is a company of the kind referred to in Class Order 98/100, dated 10 July 1998, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report and financial report. Amounts in the Directors' report and the half-year financial report are presented in US dollars and have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Signed in accordance with a resolution of the Directors made pursuant to section 306(3) of the Corporations Act 2001.

On behalf of the Directors



Graham Bradley
Chairman

Sydney, 17 August 2009

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The Directors
Boart Longyear Limited
919 - 929 Marion Road
Mitchell Park SA 5043
Australia

17 August 2009

Dear Directors

Boart Longyear Limited

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

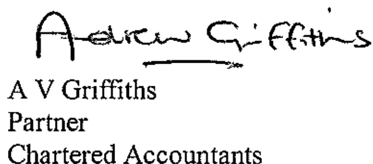
As lead audit partner for the review of the financial statements of Boart Longyear Limited for the half-year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

DELOITTE TOUCHE TOHMATSU



A V Griffiths
Partner
Chartered Accountants

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Member of
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Independent Auditor's Review Report to the members of Boart Longyear Limited

We have reviewed the accompanying half-year financial report of Boart Longyear Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2009, and the condensed consolidated statement of comprehensive income, condensed consolidated statement of cash flows, condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 10 to 32.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Boart Longyear Limited's financial position as at 30 June 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Boart Longyear Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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Member of
Deloitte Touche Tohmatsu

Deloitte.

Auditor's Independence Declaration

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2009 and of its performance for the half-year ended on that date; and

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

DELOITTE TOUCHE TOHMATSU

A V Griffiths
Partner
Chartered Accountants
Sydney, 17 August 2009

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DIRECTORS' DECLARATION

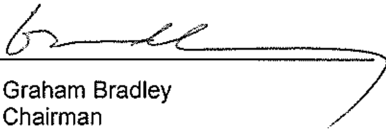
The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the Directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the Directors



Graham Bradley
Chairman

Sydney, 17 August 2009

Condensed Consolidated Statement of Comprehensive Income

For the half-year ended 30 June 2009

	Note	Consolidated Half-year ended 30 June 2009 US$'000	Consolidated Half-year ended 30 June 2008 US$'000
Continuing operations			
Revenue		462,895	985,216
Cost of goods sold		(346,721)	(660,594)
Gross margin		116,174	324,622
Other income	4	1,585	11,769
General and administrative expenses		(55,952)	(86,469)
Selling and marketing expenses		(37,110)	(64,874)
Restructuring expense and related impairments	7	(8,316)	(689)
Other expenses	5	(8,165)	(1,596)
Operating profit		8,216	182,763
Interest income		284	969
Finance costs	6	(16,626)	(19,408)
Profit (loss) before taxation		(8,126)	164,324
Income tax benefit (expense)		2,765	(52,584)
Profit (loss) for the period attributable to equity holders of the parent		(5,361)	111,740
Earnings (loss) per share			
Basic earnings (loss) per share		(0.36) cents	7.44 cents
Diluted earnings (loss) per share		(0.36) cents	7.43 cents
<u>**Other comprehensive income**</u>			
Profit (loss) for the period attributable to equity holders of the parent		(5,361)	111,740
Exchange differences arising on translation of foreign operations		60,996	21,539
Gains on cash flow hedges recorded in equity		6,174	776
Actuarial gains (losses) related to defined benefit plans		-	(2,515)
Capitalised transaction costs - GST refund		4,207	-
Income tax on income and expense recognised directly through equity		(2,119)	(972)
Other comprehensive income for the period (net of tax)		69,258	18,828
Total comprehensive income for the period		63,897	130,568
Total comprehensive income for the period attributable to equity holders of the parent		63,897	130,568

See accompanying Notes to the Condensed Consolidated Financial Statements included on pages 16 – 32.

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Condensed Consolidated Statement of Financial Position

As of 30 June 2009

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	Note	Consolidated 30 June 2009 US$'000	Consolidated 31 December 2008 US$'000
Current assets			
Cash and cash equivalents		91,347	50,603
Trade and other receivables	10	196,000	234,578
Inventories		162,062	177,296
Other financial assets		320	306
Current tax receivable		23,327	10,161
Prepaid expenses		16,827	26,166
Total current assets		489,883	499,110
Non-current assets			
Property, plant and equipment		379,021	403,693
Goodwill	11	260,415	234,571
Other intangible assets	11	79,013	73,456
Deferred tax assets		62,383	68,537
Other assets		1,276	1,609
Defined benefit plan asset		16,204	13,031
Total non-current assets		798,312	794,897
Total assets		1,288,195	1,294,007
Current liabilities			
Trade and other payables		125,255	195,597
Provisions	14	20,416	23,109
Current tax payable		15,391	32,378
Loans and borrowings	12	589,746	3,314
Total current liabilities		750,808	254,398
Non-current liabilities			
Trade and other payables		641	1,293
Loans and borrowings	12	252,482	811,604
Other financial liabilities	13	21,024	27,197
Deferred tax liabilities		1,705	2,130
Provisions	14	43,616	45,037
Total non-current liabilities		319,468	887,261
Total liabilities		1,070,276	1,141,659
Net assets		**217,919**	**152,348**
Equity			
Issued capital		478,036	478,036
Reserves		(51,594)	(118,319)
Other equity		(137,332)	(141,539)
Accumulated losses		(71,191)	(65,830)
Total equity		**217,919**	**152,348**

See accompanying Notes to the Condensed Consolidated Financial Statements included on pages 16 – 32.

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Condensed Consolidated Statement of Changes in Equity

For the half-year ended 30 June 2009

	Issued Capital US$'000	Foreign Currency Translation Reserve US$'000	Equity Settled Compensation Reserve US$'000	Hedging Reserve US$'000	Other Equity US$'000	Accumulated Losses US$'000	Total Attributible to Owners of the Parent US$'000
Balance at 1 January 2008	479,673	30,216	368	(8,050)	(141,539)	(141,028)	219,640
Profit for the period	-	-	-	-	-	111,740	111,740
Exchange differences arising on translation of foreign operations	-	21,539	-	-	-	-	21,539
Gain on cash flow hedges	-	-	-	776	-	-	776
Actuarial losses on defined benefit plans	-	-	-	-	-	(2,515)	(2,515)
Income tax relating to components of other comprehensive income	-	-	-	(272)		(700)	(972)
Total comprehensive income for the period	-	21,539	-	504	-	108,525	130,568
Payment of dividends	-	-	-	-	-	(22,543)	(22,543)
Share-based compensation expense	-	-	703	-	-	-	703
Balance at 30 June 2008	479,673	51,755	1,071	(7,546)	(141,539)	(55,046)	328,368
Balance at 1 January 2009	478,036	(103,548)	2,592	(17,363)	(141,539)	(65,830)	152,348
Loss for the period	-	-	-	-	-	(5,361)	(5,361)
Exchange differences arising on translation of foreign operations	-	60,996	-	-	-	-	60,996
Gain on cash flow hedges	-	-	-	6,174	-	-	6,174
Capitalised transaction costs - GST refund *	-	-	-	-	4,207	-	4,207
Income tax relating to components of other comprehensive income	-	-	-	(2,119)	-	-	(2,119)
Total comprehensive income for the period	-	60,996	-	4,055	4,207	(5,361)	63,897
Share-based compensation expense	-	-	1,674	-	-	-	1,674
Balance at 30 June 2009	478,036	(42,552)	4,266	(13,308)	(137,332)	(71,191)	217,919

* During the period, a GST refund was received relating to the IPO transaction costs that were capitalised in 2007.

See accompanying Notes to the Condensed Consolidated Financial Statements included on pages 16 – 32.

Condensed Consolidated Statement of Cash Flows

For the half-year ended 30 June 2009

	Note	Consolidated Half-year ended 30 June 2009 US$'000	Half-year ended 30 June 2008 US$'000
Cash flows from operating activities			
Profit (loss) for the year		(5,361)	111,740
Adjustments provided by operating activities:			
Income tax (benefit) expense recognised in profit		(2,765)	52,584
Finance costs recognised in profit	6	16,626	19,408
Investment revenue recognised in profit		(284)	(969)
(Gain) Loss on sale or disposal of non-current assets		(44)	223
(Gain) Loss on disposal of businesses	16	4,092	(9,409)
Depreciation and amortisation		42,496	40,682
Foreign exchange (gain) loss		870	(407)
Share-based compensation		1,674	703
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:			
(Increase) decrease in assets:			
Trade and other receivables		47,587	(68,965)
Inventories		26,201	(37,321)
Other assets		10,728	(19,387)
Increase (decrease) in liabilities:			
Trade and other payables		(66,624)	9,259
Provisions		(5,272)	8,095
Cash generated from operations		69,924	106,236
Interest paid		(15,214)	(18,564)
Interest received		284	969
Income taxes paid		(24,699)	(42,554)
Net cash flows provided by operating activities		**30,295**	**46,087**

See accompanying Notes to the Condensed Consolidated Financial Statements included on pages 16 – 32.

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Condensed Consolidated Statement of Cash Flows (continued)

For the half-year ended 30 June 2009

	Note	Consolidated Half-year ended 30 June 2009 US$'000	Consolidated Half-year ended 30 June 2008 US$'000
Cash flows from investing activities			
Purchase of property, plant and equipment		(14,016)	(78,314)
Purchase of rods and casings		(1,148)	(4,586)
Proceeds from sale of property, plant and equipment		5,847	1,474
Intangible and development costs paid		(10,422)	(1,548)
Payments for acquisitions of businesses	15	(403)	(45,848)
Proceeds on disposal of subsidiaries, net of cash disposed	16	2,587	16,375
Net cash flows used in investing activities		(17,555)	(112,447)
Cash flows from financing activities			
Proceeds from borrowings		28,897	122,908
Payments for debt issuance costs		(880)	(24)
GST refund on capitalised IPO transaction costs		4,207	-
Repayment of borrowings		(2,132)	(70,539)
Dividends paid	9	-	(22,543)
Net cash flows provided by financing activities		30,092	29,802
Net increase (decrease) in cash and cash equivalents		42,832	(36,558)
Cash and cash equivalents at the beginning of the period		50,603	87,548
Effects of exchange rate changes on the balance of cash held in foreign currencies		(2,088)	(2,017)
Cash and cash equivalents at the end of the period		91,347	48,973

See accompanying Notes to the Condensed Consolidated Financial Statements included on pages 16 – 32.

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Notes to the Condensed Consolidated Financial Statements

For the half-year ended 30 June 2009

1. GENERAL INFORMATION AND BASIS OF PREPARATION

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting' ("AASB 134"). Compliance with AASB 134 ensures compliance with International Accounting Standard 34 'Interim Financial Reporting' ("IAS 34"). The half-year financial report does not include notes of the type normally included in an annual financial report, but additional notes have been included where such notes are deemed relevant to the understanding of the half-year financial report and should be read in conjunction with the most recent annual financial report.

Except where indicated otherwise, all amounts are presented in United States dollars.

General information and basis of preparation

The condensed consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The Company is a company 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 Directors' report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Going concern

During the interim period ended 30 June 2009 the Group incurred a net loss of $5,361,000 (30 June 2008: net profit of $111,740,000). Cash flow generated from operating activities during the interim period ended 30 June 2009 totalled $30,295,000 (30 June 2008: $46,087,000).

The Group has outstanding bank debt totalling $837,000,000 as of 30 June 2009, of which $585,000,000 is due and payable on 10 April 2010. The remaining $252,000,000 of outstanding bank debt is due and payable on 13 April 2012. The amounts due and payable on 10 April 2010 have been disclosed as current liabilities as at 30 June 2009, which is consistent with the requirements of AASB 101 'Presentation of Financial Statements'. As a result, current liabilities exceed current assets by $260,925,000.

The Group has complied with all its bank covenants for the period ended 30 June 2009. The Directors have reviewed the Group's projections, which they believe are based on market data and past experience and expect that, based on those projections, and absent a re-capitalisation or a modification of the terms of the bank debt, the Group is likely to breach its Net Debt-to-Adjusted EBITDA leverage covenant (as defined in the bank agreement) as at 31 December 2009. No restrictions have been imposed by the banks on the use of the current debt facility and access to the facility continues to be made available in the ordinary course of business.

The financial report has been prepared on the basis that the Group is a going concern, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

In preparing the financial report on this basis, the Directors have had regard to the following:

- positive cash-flow projections for the Group;
- the significant actions taken to reduce operating costs and enhance cash flows;
- the absence of events of default under current borrowing facilities;
- continuation of payments to creditors on due date;
- the Group has entered into an agreement ("the Refinancing Agreement") with its lenders establishing the terms for a refinancing and amendment of the Group's credit facilities. The Refinancing Agreement is capable of being accepted by the Group until 15 September 2009 (unless extended) and if accepted will result in an extension of the maturity of all debt until April 2012. Completion of the Refinancing Agreement is subject to a number of conditions including a reduction of at least $275,000,000 in the current facility amount, as well as other requirements and approvals that are procedural in nature; and

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1. GENERAL INFORMATION AND BASIS OF PREPARATION (continued)

- the Company has announced plans to raise up to $635,000,000 by way of a fully underwritten accelerated non-renounceable pro rata entitlement rights issue ("Entitlement Offer"), an institutional placement of ordinary shares ("Unconditional Placement") and an institutional placement of ordinary shares conditional on obtaining shareholder approval ("Conditional Placement") (together "the Capital Raising"). If the Conditional Placement is approved by shareholders, the Company will make an offer of ordinary shares for issue under a share purchase plan. The proceeds raised from the Capital Raising and the share purchase plan will be used primarily to repay existing bank debt.

  The gross proceeds under the Entitlement Offer and the Unconditional Placement (both of which are underwritten and neither of which requires shareholder approval) are expected to be approximately $442,000,000. This is in excess of the minimum level required to enable the Company to execute the terms of the Refinancing Agreement entered into with the Company's lenders, if it chooses.

  If the Conditional Placement is not approved by shareholders at the Extraordinary General Meeting on or about 24 September 2009 and the Group has not executed the terms of the Refinancing Agreement, then the Group may be required to seek alternative funding or negotiate with its lenders to refinance the remaining outstanding debt facilities which mature on 10 April 2010, estimated to be approximately $180,000,000 (assuming the full underwritten amount of $442,000,000 is received by the Company, less estimated transaction costs). The Directors have no reason to believe that the Group will not be able to secure alternative funding or negotiate a revised refinancing with its lenders in this circumstance.

The Directors believe that the Group is adequately positioned to manage its business risks successfully despite the current economic outlook and challenging environment. The Directors consider that the Group has the flexibility to react to changes in market conditions and that the Group's costs can be reduced or increased in line with changing circumstances in the business.

In light of all the matters set out above, the Directors believe that it is appropriate to prepare the financial report on a going concern basis.

2. SUMMARY OF ACCOUNTING POLICIES AND ADOPTION OF NEW STANDARDS

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2008 annual financial report for the financial year ended 31 December 2008, other than as detailed below.

Adoption of new and revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current reporting period. These Standards and Interpretations include:

Presentation of Financial Statements
AASB 101 'Presentation of Financial Statements (revised September 2007)', AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101'. The adoption of these standards require the disclosure of "total comprehensive income", changes the titles on some of the financial statements , require a statement of financial position at the beginning of the earliest comparative period when comparatives are "restated", and require disclosure of income tax relating to each component of other comprehensive income.

Borrowing Costs
AASB 123 'Borrowing Costs' (revised), AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123' makes a number of amendments to other accounting standards as a result of the revised AASB 123 and must be adopted at the same time. This revised version requires an entity to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The adoption of this standard did not have a significant impact on the Group's financial results or statement of financial position.

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2. SUMMARY OF ACCOUNTING POLICIES AND ADOPTION OF NEW STANDARDS (continued)

Share-based payments
AASB 2008-1 'Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations' amends AASB 2 'Share-based Payment' to introduce equivalent amendments made to IFRS 2 'Share-based Payment' to:

- clarify that vesting conditions are those conditions that determine whether the entity receives the services that result in the counterparty's entitlement
- restrict the definition of vesting conditions to include only service conditions and performance conditions
- amend the definition of performance conditions to require the completion of a service period in addition to specified performance targets
- specify that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

The adoption of this standard did not have a significant impact on the Group's financial results or statement of financial position.

Business Combinations
AASB 3 'Business Combinations (2008)', AASB 127 'Consolidated and Separate Financial Statements' and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127' alter the manner in which business combinations and changes in ownership interests in subsidiaries are accounted for. There are also consequential amendments to other standards affected through AASB 2008-2, most notably AASB 128 'Investments in Associates' and AASB 131 'Interests in Joint Ventures'. The adoption of this standard did not have a significant impact on the Group's financial results or statement of financial position.

Recently issued accounting standards to be applied in future reporting periods

The accounting standards and AASB Interpretations that will be applicable to the Group in future reporting periods that were not included in the most recent annual financial report are detailed below. Apart from these standards and interpretations, management has considered other accounting standards that will be applicable in future periods, however they have been considered insignificant to the Group.

Financial Instruments Disclosure
AASB 2009-2 'Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments' is effective for annual reporting periods beginning on or after 1 July 2009. It amends AASB 7 'Financial Instruments: Disclosures' to require enhanced disclosures about fair value measurements and liquidity risk. Among other things the amendments:

- clarify that the existing AASB 7 fair value disclosures must be made separately for each class of financial instrument
- add disclosure of any change in the method of determining fair value and the reasons for the change
- establish a three-level hierarchy for making fair value measurements used in the disclosures
- clarify that the current maturity analysis for non-derivative financial instruments should include issued financial guarantee contracts and disclosure of a maturity analysis for derivative financial liabilities.

Management has not yet assessed the impact of adopting this standard.

Amendments to Australian Accounting Standards
AASB 2009-4 'Amendments to Australian Accounting Standards arising from the Annual Improvement Process' is effective for annual reporting periods beginning on or after 1 July 2009. The standard introduces amendments into Accounting Standards that are equivalent to those made by the IASB under its program of annual improvements to its standards. A number of the amendments are technical changes to other pronouncements as the result of AASB 3 'Business Combinations' (2008), to align the scope of the pronouncements or to implement other consequential amendments. Management has not yet assessed the impact of adopting this standard.

2. SUMMARY OF ACCOUNTING POLICIES AND ADOPTION OF NEW STANDARDS (continued)

Further Amendments to Australian Accounting Standards
AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process' is effective for annual reporting periods beginning on or after 1 January 2010. The standard introduces amendments into Accounting Standards that are equivalent to those made by the IASB under its program of annual improvements to its standards. A number of the amendments are largely technical, clarifying particular items, or eliminating unintended consequences. Other changes are more substantial, such as the current/non-current classification of convertible instruments, the classification of expenditures on unrecognised assets in the statement of cash flows and the classification of leases of land and buildings. Management has not yet assessed the impact of adopting this standard.

3. SEGMENT REPORTING

The Group has adopted AASB 8 'Operating Segments' and AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8' with effect from 1 January 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (AASB 114 'Segment Reporting') required an entity to identify two sets of segments (business and geographical), using a risk and rewards approach, with the entity's 'system of internal reporting to key management personnel', serving only as the starting point for the identification of such segments. The adoption of AASB 8, has not changed the identification of the Group's reportable segments.

Segment information reported externally continues to be analysed on the basis of the Group's two general operating activities – Global Drilling Services and Global Products – which provides services and products to mining companies, energy companies (coal, oil, gas and geothermal), water utilities, environmental and geotechnical engineering firms, government agencies and other mining services companies. This information is reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of performance.

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies.

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3. SEGMENT REPORTING (continued)

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review:

	Revenue		Segment profit	
	Half-year ended		Half-year ended	
	30 June 2009 US$'000	30 June 2008 US$'000	30 June 2009 US$'000	30 June 2008 US$'000
Global Drilling Services	346,677	649,424	38,064	128,094
Global Products	116,218	335,792	6,333	78,504
	462,895	985,216	44,397	206,598
Unallocated			(36,181)	(23,835)
Finance costs			(16,626)	(19,408)
Interest income			284	969
Profit (loss) before taxation			(8,126)	164,324

	Segment assets	
	30 June 2009 US$'000	31 Dec 2008 US$'000
Global Drilling Services	750,938	749,880
Global Products	248,846	290,895
Total of all segments	999,784	1,040,775
Unallocated	288,411	253,232
Total	1,288,195	1,294,007

The revenue reported above represents revenue generated from external customers.

Segment profit represents the profit earned by each segment without allocation of corporate selling and marketing expenses, general and administrative expenses, other income, and other expenses. These amounts are included in the "unallocated" category above.

Segment assets are those operating assets that are employed by a segment in its operating activities that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. These assets include trade receivables, inventories, property plant and equipment, goodwill and other intangibles.

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4. OTHER INCOME

During the half-year ended 30 June 2009 and 30 June 2008, other income consisted of:

	Consolidated	
	2009 US$'000	2008 US$'000
Gain on foreign currency translation	-	105
Gain on disposal of subsidiary	-	9,409
Gain on sale of property, plant and equipment	44	-
Other income, net	1,541	2,255
	1,585	11,769

5. OTHER EXPENSES

During the half-year ended 30 June 2009 and 30 June 2008, other expenses consisted of:

	Consolidated	
	2009 US$'000	2008 US$'000
Amortisation of other intangible assets	3,875	1,373
Loss on sale of property, plant and equipment	-	223
Loss on disposal of subsidiaries	4,092	-
Loss on foreign currency translation	198	-
	8,165	1,596

6. FINANCE COSTS

During the half-year ended 30 June 2009 and 30 June 2008, finance costs consisted of:

	Consolidated	
	2009 US$'000	2008 US$'000
Interest on bank overdrafts and loans	7,693	15,549
Interest rate swap expense	7,211	2,712
Amortisation of debt issuance costs	1,052	830
Write-off of debt issuance costs	360	-
Interest on obligations under finance leases	310	317
Total interest expense	16,626	19,408
Loss arising on derivatives in a designated fair value hedge accounting relationship	694	1,796
Gain arising on adjustment to hedged item in a designated fair value hedge accounting relationship	(694)	(1,796)
Total finance costs:	16,626	19,408

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7. GROUP RESTRUCTURING

During the half-year ended 30 June 2009 the Group continued to reduce operating costs through a series of restructuring activities. The Group's restructuring efforts included:

- reduction of drilling services, manufacturing, general and administrative, and sales and marketing staff levels;
- consolidation of manufacturing, sales and services facilities; and
- discontinuation of certain businesses/product lines.

As a result of these restructuring activities, the Group recognised separation costs associated with staff reductions, provisions related to leases associated with facilities being closed, and impairments of inventory and capital equipment related to businesses and product lines being discontinued. Similar types of restructuring activities occurred in 2008.

Restructuring expenses are as follows:

	Consolidated	
	2009 US$'000	2008 US$'000
Employee separation costs	6,664	546
Occupancy and other	1,652	143
	8,316	689

Restructuring expenses relate to the following expense categories:

	Consolidated	
	2009 US$'000	2008 US$'000
Cost of goods sold	1,415	390
General and administrative expenses	2,770	116
Selling and marketing expenses	4,131	183
	8,316	689

8. RECLASSIFICATION

During the second half of 2008 the Group performed a review of selling and marketing expenses and determined that certain costs would be more appropriately classified as cost of goods sold and general and administrative. As a result, the accounts were reclassified and systems were put in place to properly classify these costs on a go forward basis. In order to present comparable financial results, the related half-year ending 30 June 2008 accounts included in selling and marketing costs have been reclassified to cost of goods sold and general and administrative as follows:

	2008 Selling and marketing US$'000	2008 Cost of goods sold US$'000	2008 General and administrative US$'000
Amounts originally reported	(86,276)	(643,004)	(82,657)
Reclassification	21,402	(17,590)	(3,812)
Restated amounts	(64,874)	(660,594)	(86,469)

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9. DIVIDENDS

There were no dividends declared or paid in the half-year ended 30 June 2009.

During the half-year ended 30 June 2008, the 2007 final dividend of 1.5 cents (total of $22,543,000) on each of the issued ordinary shares of the Company was paid on 18 April 2008 to shareholders of record on 20 March 2008.

In addition to the above dividend, on 26 August 2008, the Directors determined to pay an interim dividend of 2.3 cents (total of $34,565,000) on each of the issued ordinary shares of the Company. The dividend was payable on 16 October 2008 to shareholders of record on 18 September 2008. This dividend equated to 31% of consolidated net profit after tax for the half-year ended 30 June 2008. The dividend was 35% franked at the Australian corporate taxation rate of 30% and was not included as a liability in the 30 June 2008 financial statements.

10. TRADE AND OTHER RECEIVABLES

	Consolidated	
	30 June 2009 US$'000	31 December 2008 US$'000
Trade receivables	175,398	217,239
Allowance for doubtful accounts	(6,041)	(8,100)
Goods and services tax receivable	12,381	13,965
Other receivables	14,262	11,474
	196,000	234,578

The aging of trade receivables is detailed below:

	Consolidated	
	30 June 2009 US$'000	31 December 2008 US$'000
Current	138,146	166,870
Past due 0 - 30 days	22,392	28,055
Past due 31 - 60 days	4,606	9,204
Past due 61-90 days	3,076	6,542
Past due 90 days	7,178	6,568
	175,398	217,239

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10. TRADE AND OTHER RECEIVABLES (continued)

The movement in the allowance for doubtful accounts in respect of trade receivables is detailed below:

	Consolidated	
	30 June 2009 US$'000	31 December 2008 US$'000
Opening Balance	8,100	3,425
Additional provisions	1,266	6,453
Amounts used	(2,889)	(125)
Amounts reversed	(796)	(1,025)
Foreign currency exchange differences	360	(628)
Closing balance	6,041	8,100

The average credit period on sales of goods is 62 days. No interest is charged on trade receivables.

The Group's policy requires customers to pay the Group in accordance with agreed payment terms. The Group's settlement terms are generally 30 to 60 days from date of invoice. All credit and recovery risk associated with trade receivables has been provided for in the statement of financial position. Trade receivables have been aged according to their original due date in the above ageing analysis. The Group holds security for a number of trade receivables in the form of letters of credit, deposits, and advanced payments.

The Group has used the following basis to assess the allowance loss for trade receivables:

- the general economic conditions in specific geographical regions;
- an individual account by account specific risk assessment based on past credit history; and
- any prior knowledge of debtor insolvency or other credit risk.

11. GOODWILL AND OTHER INTANGIBLES

	Consolidated	
	30 June 2009 US$'000	31 December 2008 US$'000
Goodwill	260,415	234,571
Other Intangibles:		
Trademarks	2,882	3,094
Patents	553	633
Customer relationships	45,646	46,367
Software	17,807	14,550
Development assets	12,125	8,812
Total other intangibles	79,013	73,456

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11. GOODWILL AND OTHER INTANGIBLES (continued)

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to individual cash generating units. The carrying amount of goodwill by geographic area allocated to cash-generating units that are significant individually or in aggregate is as follows:

	Consolidated	
	30 June 2009 US$'000	31 December 2008 US$'000
Asia Pacific	123,382	105,661
South America	33,478	33,108
North America	103,555	95,802
	260,415	234,571

The carrying amount of goodwill is tested for impairment annually at 31 October and whenever there is an indicator that the asset may be impaired. If an asset is impaired, it is written down to its recoverable amount.

Due to the current economic environment and the impact on trading performance the Group believes that there is an indication of impairment and therefore has tested for impairment at 30 June 2009. The recoverable amount is based on a value in use calculation using cash flow projections based on the Group's three year strategic plan and financial forecasts over a 9-year period, which approximates the length of a typical business cycle based on historical industry experience, with a terminal value. Key assumptions used for impairment testing for 30 June 2009 include:

- a global discount rate of 11.5% adjusted on a case by case basis for regional variations in the required equity rate of return based on independent data (the adjusted rates ranged from 9.2% to 25.3%)
- expected future profits and future annual growth rates consistent with internal forecasts and expected performance of the specific business line being tested for impairment over the cycle. The growth rates do not exceed forecasts for the long term industry averages.

Sensitivity analyses were performed to determine whether the carrying value is supported by different assumptions. The key variables of the sensitivity analysis included:

- applicable discount rates;
- terminal growth rates; and
- inflation assumptions.

Based on the impairment testing performed, the recoverable amount from each cash generating unit exceeded the goodwill carrying amount. Consequently, no write downs were recorded at 30 June 2009.

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12. LOANS AND BORROWINGS

	Consolidated	
	30 June 2009 US$'000	31 December 2008 US$'000
Unsecured - at amortised cost		
Current		
Term bank loans (i)	585,000	-
Other bank loans	3,601	1,173
Debt issuance costs	(1,576)	-
Non-current		
Term bank loans (i)	65,000	650,000
Revolver bank loans (i)	187,000	162,000
Debt issuance costs	(953)	(3,039)
Secured - at amortised cost		
Current - finance lease liabilities (ii)	2,721	2,141
Non-current - finance lease liabilities (ii)	1,435	2,643
	842,228	814,918
Disclosed in the financial statements as:		
Current borrowings	589,746	3,314
Non-current borrowings	252,482	811,604
	842,228	814,918
A summary of the maturity of the Group's borrowings is as follows:		
Less than 1 year	589,746	3,314
Between 1 and 2 years	948	583,075
Between 2 and 3 years	251,534	1,737
Between 3 and 4 years	-	226,341
More than 4 years	-	451
	842,228	814,918

(i) As of 30 June 2009 and 31 December 2008, bank loans consist of variable rate loans with a consortium of banks maturing on 10 April 2010 and 13 April 2012. The interest rates on the loans are based on a base rate plus applicable margin. The base rate is generally based on USD LIBOR rates, while the margin is determined based on leverage according to a pricing grid. As of 30 June 2009, the rates ranged from USD LIBOR + 0.55% to USD LIBOR + 0.65% (1.80% to 1.90%). As of 31 December 2008, the rates ranged from USD LIBOR + 0.55% to USD LIBOR + 0.65% (2.05% to 2.15%). The Group hedges a portion of its exposure to floating rates under the loans via interest rate swaps, exchanging variable rate interest payments for fixed rate interest payments. As of 30 June 2009 and 31 December 2008, $425,000,000 notional amount of floating rate interest rates were swapped to fixed at a base rate ranging from 3.163% to 5.1825%.

The Group's borrowings contain covenants and restrictions requiring the Group to meet certain financial ratios and reporting requirements. These covenants include maintaining a Net Debt to Adjusted EBITDA ratio of not more than 3.75:1 and an Adjusted EBITDA to Interest ratio of not less than 3.0:1. Testing of covenant compliance takes place twice-yearly for the trailing 12 month periods to 30 June and 31 December. Noncompliance with one or more of the covenants or restrictions could result in the full or partial principal balance of the associated debt becoming immediately due and payable. The Group was in compliance with the debt covenants as of 30 June 2009 and 31 December 2008.

The Group's debt facilities include a revolver of $200,000,000. As of 30 June 2009, $187,000,000 was drawn at an interest rate of 1.025%. As of 31 December 2008, $162,000,000 was drawn with interest rates from 1.15% to 2.5875%. Only $188,050,000 of the revolver can be drawn because of outstanding letters of credit. The loans are guaranteed by certain subsidiaries of the Group.

(ii) Finance lease liabilities are secured by the assets leased. The borrowings have interest rates ranging from 5.15% to 11.07%, with repayment periods not exceeding 6 years.

13. FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 12, cash and cash equivalents and equity attributable to equity holders of the Parent, comprising issued capital, reserves, other equity and retained earnings (accumulated losses).

Financial risk management objectives

The Group's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks, where deemed appropriate, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk and interest rate risk. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. When appropriate, the Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- foreign exchange forward contracts to hedge the exchange rate risk arising from transactions not recorded in an entity's functional currency;
- interest rate swaps to mitigate the risk of rising interest rates.

Foreign currency risk management

The Group subsidiaries undertake certain transactions denominated in currencies other than their functional currency, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts when necessary.

At 30 June 2009, the Group had no open contracts to hedge foreign currency exposure. At 31 December 2008, the Group had entered into contracts to hedge the foreign currency exposure it had on United States dollar denominated loans in Canada. The Group entered into forward foreign exchange contracts (for terms not exceeding 9 months) to hedge the exchange rate risk arising from anticipated future transactions, which are designated as fair value hedges.

Interest rate risk management

The Group is exposed to interest rate risk as entities within the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite.

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt held.

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13. FINANCIAL INSTRUMENTS (continued)

Interest rate swap contracts (continued)

The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the LIBOR curve at reporting date and the credit risk inherent in the contract, and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

The following table details the notional principal amounts and the remaining terms of interest rate swap contracts outstanding as of reporting date.

Outstanding floating for fixed contracts	Average contracted fixed interest rate 30 Jun 2009 %	Average contracted fixed interest rate 31 Dec 2008 %	Notional principal amount 30 Jun 2009 US$'000	Notional principal amount 31 Dec 2008 US$'000	Fair value 30 Jun 2009 US$'000	Fair value 31 Dec 2008 US$'000
Consolidated						
Less than 1 year	3.1890%	3.1890%	100,000	100,000	(659)	(1,497)
1 to 5 years	5.1825%	5.1825%	325,000	325,000	(20,365)	(25,700)
			425,000	425,000	(21,024)	(27,197)

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is 90-day USD LIBOR. The Group settles the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period of the loan.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Treasurer and board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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13. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

14. PROVISIONS

The current provisions balances as of 30 June 2009 and 31 December 2008 are as follows:

	Consolidated	
	30 June 2009 US$'000	31 December 2008 US$'000
Employee benefits	11,401	9,013
Warranty	2,579	5,366
Restructuring and termination costs	6,436	8,730
Current provisions	20,416	23,109

The non-current provisions balances as of 30 June 2009 and 31 December 2008 are as follows:

	Consolidated	
	30 June 2009 US$'000	31 December 2008 US$'000
Pension and post-retirement benefits	42,162	43,128
Employee benefits	1,454	1,909
Non-current provisions	43,616	45,037

Full actuarial valuations of the defined benefit pension and post-retirement benefit plans are performed annually by qualified independent actuaries for the Group's 31 December year-end closing. Management believes that movements in the defined benefit obligations and fair values of plan assets during the half-year ended 30 June 2009 have not been significant and, as a result, has not performed full actuarial valuations at 30 June 2009.

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15. ACQUISITION OF OPERATIONS

There were no entities acquired by the Group during the half-year ended 30 June 2009.

On 16 September 2008, the Group acquired Eklund Drilling Company, Inc. ("Eklund") which was accounted for provisionally at 30 June 2009 and at 31 December 2008. During the first half of the year ended 30 June 2009, additional goodwill of approximately $7 million was recorded relating to purchase price adjustments and the finalisation of the closing balance sheet. In addition, cash of $403,000 was paid for the Eklund and Westrod Engineering acquisitions during the period.

During the half-year ended 30 June 2008, the Group acquired the following entities:

On 25 February 2008, the Group acquired Britton Bros Diamond Drilling ("Britton Bros"), which has operations in Canada and Mexico. The Canadian operations were acquired as a purchase of substantially all of the Canadian assets, and the Mexican operations involved the purchase of the shares of two Mexican entities. Britton Bros, with a total of 30 drill rigs, is an industry leader in surface and underground mineral drilling located in Canada and Mexico. The goodwill arising on the acquisition of Britton Brothers is attributable to the capacity it provides the Group to expand both its mineral and energy footprints in North and Latin America. Accounting for this acquisition was determined provisionally at 30 June 2008.

On 5 May 2008, the Group acquired 100% of the issued share capital of Aqua Drilling and Grouting Pty Ltd ("Aqua"). Aqua is located in Melbourne and specialises in environmental drilling, geotechnical drilling, water drilling and related services. The goodwill arising on the acquisition of Aqua Drilling and Grouting Pty Ltd is attributable to its ability to complement the Group's growing Environmental & Infrastructure Drilling Services footprint and add an additional 11 rigs to the Boart Longyear fleet. Accounting for this acquisition was determined provisionally at 30 June 2008.

Both of the Britton Bros and Aqua acquisitions were accounted for as purchase transactions, and the consolidated profit and loss amounts include the operations of the acquisitions from the date of acquisition through 30 June 2008. The revenue contributed by Britton Bros and Aqua in the period between the dates of acquisition and the reporting date were approximately $3.4 million. Had the acquisitions been completed on 1 January 2008, total consolidated revenue for the period would have been $994.5 million, and consolidated profit for the period would have been $114.2 million.

The net assets acquired in the business combinations during the half-year ended 30 June 2008, and the goodwill arising, are as follows:

Net assets acquired	Acquiree's carrying amount before business combination US$'000	Fair value adjustments US$'000	Fair value US$'000
Cash and cash equivalents	11	-	11
Trade and other receivables	7,400	-	7,400
Other assets	332	-	332
Intangible assets	-	11,061	11,061
Property, plant and equipment	4,502	2,454	6,956
Trade and other payables	(4,809)	-	(4,809)
Deferred tax assets	34	(1,683)	(1,649)
	7,470	11,832	19,302
Goodwill arising on the acquisition			28,280
Total consideration			47,582
Net cash outflow arising on acquisition:			
Total consideration			(47,582)
Deferred consideration			1,408
Cash and cash equivalents acquired			11
			(46,163)

15. ACQUISITION OF OPERATIONS (continued)

On 31 December 2007, the Group acquired Patagonia Drilling, which was accounted for provisionally at 31 December 2007. During the half-year period ended 30 June 2008, additional goodwill of approximately $4 million was recorded related to Patagonia Drilling purchase price adjustments and the finalisation of the closing balance sheet. In addition, net cash received related to Patagonia Drilling during the period was $315,000.

16. DISPOSAL OF OPERATIONS

On 30 June 2009, the Group announced the sale of its Sub Saharan manufacturing operations and the exclusive right to sell certain of the Group's percussive rock drills and hard rock tools in Sub Saharan Africa for $7,802,000. The disposal is consistent with the Group's on-going strategy to divest select non-core assets. The assets that were sold were not considered a core business and earned lower returns than the core business lines.

The net assets disposed of are as follows:

	US$'000
Assets	7,015
Liabilities	(444)
Net assets disposed	6,571
Foreign currency translation reserve	2,684
Disposal costs	1,031
Working capital adjustment	1,388
Loss on disposal	(3,872)
Total proceeds	7,802
Proceeds held as receivable as at 30 June 2009	(4,995)
Net cash inflow from disposal of subsidiaries	2,807

During the half-year ended 30 June 2009 the Group also paid $220,000 related to the settlement of the disposal of its diamond wire business in South Africa, which was sold on 2 September 2008.

On 17 March 2008, the Group announced the sale of the Mining Capital Equipment ("MCE") division in South Africa for $16,971,000. The disposal was consistent with the Group's long-term policy to focus its activities on higher-return, core business opportunities. The MCE South Africa division was not considered a core business and earned lower returns than the core business lines.

The MCE South Africa net assets disposed of are as follows:

	US$'000
Assets	13,060
Liabilities	(6,095)
Net assets disposed	6,965
Disposal costs	597
Gain on disposal	9,409
Total proceeds	16,971
Net cash disposed and cash used for disposal costs	(596)
Net cash inflow from disposal of subsidiaries	16,375

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17. SHARE-BASED COMPENSATION

On 17 June 2009, 2,550,000 options were granted to certain members of management. The options were granted at a strike price of A$0.30 (US$0.24), which exceeded the A$0.25 (US$0.19) market price of the Company's shares at the time of the grant. The options vest three years from grant date and are exercisable until 17 June 2014. There were no options granted during the half-year ended 30 June 2008.

During the half-years ended 30 June 2009 and 2008, there were several grants of rights made under the Long-Term Incentive Plan ("LTIP"). The share-based expense related to these grants recorded during the period was $97,000 and $363,000, respectively. The total share-based expense for the current and previously issued rights was $1,674,000 and $703,000, respectively.

The following table shows the details of the grants made during the periods:

Series	Number	Grant Date	Vesting Date	Fair Value at Grant Date
(1) Issued 11 April 2008	3,548,310	11-Apr-08	11-Apr-11	1.77
(2) Issued 28 April 2008	1,000,000	28-Apr-08	1-Jan-13	0.69
(3) Issued 28 April 2008	1,500,000	28-Apr-08	1-Jan-14	1.45
(4) Issued 26 June 2008	476,762	26-Jun-08	11-Apr-11	2.10
(5) Issued 14 January 2009	32,500	14-Jan-09	14-Jan-12	0.18
(6) Issued 25 March 2009	14,700,000	25-Mar-09	25-Mar-12	0.07
(7) Issued 17 June 2009	2,550,000	17-Jun-09	17-Jun-12	0.14

The fair value of the rights was determined using the Black-Scholes-Merton pricing model using the following inputs:

	Grant date share price	Expected volatility	Life of rights	Dividend yield	Risk-free interest rate
Series 1	1.77	49.62%	36 months	0.00%	5.43%
Series 2	1.63	49.86%	56 months	0.86%	5.58%
Series 3	1.63	49.86%	68 months	0.86%	5.58%
Series 4	2.10	50.34%	34 months	0.00%	5.67%
Series 5	0.18	73.10%	36 months	0.00%	4.84%
Series 6	0.07	86.74%	36 months	0.00%	5.55%
Series 7	0.19	97.29%	60 months	0.00%	5.59%

18. CONTINGENCIES

Legal claims

The Group is subject to certain routine legal proceedings that arise in the normal course of its business. The Group believes that the ultimate amount of liability, if any, for any pending claims of any type (either alone or combined), will not materially affect the Group's operations, liquidity, or financial position taken as a whole. However, the ultimate outcome of any litigation is uncertain, and unfavourable outcomes could have a material adverse impact.

19. SUBSEQUENT EVENTS

Except as set out in the "Going Concern" section of Footnote 1, "General Information and Basis of Preparation", the Directors have not become aware of any matter or circumstance that has arisen since 30 June 2009 that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of the consolidated entity in subsequent years.

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