

## APPENDIX 4E - PRELIMINARY FINAL REPORT

Name of Entity: **BOART LONGYEAR LIMITED**  
ABN or equivalent company reference: **49 123 052 728**  
Current reporting period: **year ended 31 December 2012**  
Previous reporting period: **year ended 31 December 2011**

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

	2012 US\$'000	2011 US\$'000	\$ change	% change
Revenue from ordinary activities	2,011,507	2,020,322	(8,815)	-0.4%
Net profit from ordinary activities after tax attributable to members	68,164	159,871	(91,707)	-57.4%
Net profit after tax attributable to members	68,164	159,871	(91,707)	-57.4%

Brief explanation of any figures reported above:

Refer to the Directors' Report

#### Dividends per ordinary share paid or to be paid (US¢):

	2012	2011
Interim dividend	6.4 cents	4.8 cents
Franked amount	0.96 cents	1.68 cents
Final dividend	1.0 cents	5.6 cents
Franked amount	0.35 cents	0.84 cents

An interim dividend of US 6.4 cents per share was paid on 10 October 2012. The dividend was 15% franked at the Australian corporate taxation rate of 30%. None of the unfranked portion of the dividend was conduit foreign income. A final dividend of US 1.0 cent per share has been determined and is expected to be paid on 12 April 2013 to shareholders of record on 15 March 2013. The dividend will be 35% franked at the Australian corporate taxation rate of 30%. All of the unfranked portion of the dividend will be conduit foreign income.

Total dividends for the year ended 31 December 2012 were US 7.4 cents per share. Total dividends for the year ended December 2011 were US 10.4 cents per share.

#### Net Tangible Assets per share (US\$):

Current period:	\$	1.55
Previous corresponding period:	\$	1.56

#### Control gained over entities having material effect:

N/A

#### Details of aggregate share of profits (losses) of associates and joint venture entities:

N/A

#### Segment Information:

Please refer to the Annual Financial Report for the year ended 31 December 2012.

#### Compliance Statement:

The above information has been prepared based on accounts that have been audited.

#### SIGNED:



Company Secretary

DATE: 18 February 2013

**BOART LONGYEAR LIMITED**

**A.B.N. 49 123 052 728**

ANNUAL FINANCIAL REPORT

YEAR ENDED 31 DECEMBER 2012

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## **DIRECTORS' REPORT**

The directors present their report together with the financial report of Boart Longyear Limited (the "Parent") and its controlled entities (collectively the "Company") for the financial year ended 31 December 2012 ("financial year") and the Independent Auditor's Report thereon.

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

## **DIRECTORS**

The directors of the Company (the "Directors") in office during the financial year and as of the date of this report are set out below.

- Bruce Brook
- Roger Brown
- Roy Franklin
- Tanya Fratto
- Barbara Jeremiah
- David McLemore
- Peter St. George

Others who held office as Directors during the financial year were:

- Craig Kipp (appointed effective 28 June 2008; resigned effective 3 October 2012)

A brief summary of the Directors' work experience and qualifications is as follows.

### **David McLemore**

David McLemore was appointed a Director on 21 February 2007 and became Chairman of the Board on 23 August 2010. He became Interim Chief Executive Officer of the Company on 3 October 2012, contemporaneously with the cessation of Mr Kipp's employment and will serve in that additional capacity until a new chief executive officer is appointed. Mr McLemore has resigned as Chairman of the Board effective 1 March 2013, but otherwise will remain on the Board.

Mr McLemore is a member of the Remuneration and Nominations Committee and served as the Chairman of the Committee during part of the financial year, having held the chairmanship from 22 March 2010 until resigning the post on 1 March 2012.

Mr McLemore has more than 35 years of industrial and broad operational experience. He has held a number of positions with various Advent International portfolio companies for more than fifteen years and was involved with Advent International's acquisition of the Boart Longyear Group from Anglo American plc. in 2005. Mr McLemore served at various times as Chairman, Deputy Chairman and Vice Chairman of the Boart Longyear Group from 2005 until 2007. He also served as a general manager of a General Electric Power Systems division from 1985 to 1997.

Mr McLemore received his BS from Oklahoma State University.

### **Bruce Brook**

Bruce Brook was appointed a Director of the Company on 21 February 2007. He is Chairman of the Audit, Compliance and Risk Committee and a member of the Environment, Health and Safety Committee.

Mr Brook currently is Chairman of the Board of Programmed Group and a director of CSL Limited, the Export Finance and Insurance Corporation, the Deep Exploration Technologies Co-operative Research Centre and Newmont Mining Corporation (New York Stock Exchange). Mr Brook is also a member of the Audit Committee of the Salvation Army (Southern Territory).

Mr Brook was the Chief Financial Officer of WMC Resources Ltd from 2002 to 2005 and has approximately 30 years of experience in various management roles, including Deputy Chief Financial Officer of ANZ Banking Group Limited, Group Chief Accountant of Pacific Dunlop Limited, General Manager, Group Accounting at CRA Limited and General Manager, Accounting and Services at Pasminco Limited.

Mr Brook gained his B. Comm and B. Accounting at the University of Witwatersrand and is a fellow of the Institute of Chartered Accountants in Australia.

## **Roger Brown**

Roger Brown was appointed a Director of the Company on 1 July 2010. He is a member of the Remuneration and Nominations Committee and has served as the Committee's Chairman since 1 March 2012. He also is a member of the Environment, Health and Safety Committee

Mr Brown currently holds board positions with McDermott International Inc. (New York Stock Exchange) and Ultra Petroleum Corporation (New York Stock Exchange). In addition, he has held board positions for I.E. Miller Services, Sandvik/Smith Ltd and the Petroleum Equipment Suppliers Association.

Mr Brown served as President of Smith Technologies, a business unit of Smith International, Inc., which prior to its acquisition by Schlumberger, Ltd. was a Fortune 500 company and a leading worldwide supplier of products and services to the oil and gas industrial markets.

Mr Brown received his BS in Economics, History, and Political Science, and his JD, from the University of Oklahoma.

## **Roy Franklin**

Roy Franklin was appointed a Director of the Company on 15 October 2010. He is the Chairman of the Environment, Health and Safety Committee and a member of the Audit, Compliance and Risk Committee.

Mr Franklin currently serves as Chairman of the Board of Keller Group PLC (London Stock Exchange) and a director of Santos Ltd (Australian Securities Exchange), Statoil ASA (Oslo Stock Exchange) and Cuadrilla Resources. He previously held directorships on a number of other corporate boards, including International Energy Group and Novera Energy.

Mr Franklin served as Chief Executive Officer of Paladin Resources from 1997 to 2006, was Managing Director of Clyde Petroleum from 1991 to 1997, and held a number of executive roles with British Petroleum earlier in his career. Mr Franklin received his BS in Geology from the University of Southampton.

## **Tanya Fratto**

Tanya Fratto was appointed a Director of the Company on 1 June 2011 and is a member of the Environmental, Health and Safety Committee and the Remuneration and Nominations Committee.

Ms Fratto most recently served as President and Chief Executive Officer of Diamond Innovations, the world's leading supplier of manufactured diamond, cubic boron nitride (CBN), and polycrystalline products, from 2004 and April 2011. Ms Fratto also was an officer of the General Electric Company and held a number of leadership positions over more than 20 years there, including in general management, operations, sourcing, product management and marketing.

Ms Fratto received her BS in Electrical Engineering from the University of South Alabama.

## **Barbara Jeremiah**

Barbara Jeremiah was appointed a Director of the Company on 1 October 2011 and is a member of the Audit, Compliance and Risk Committee and Environment, Health and Safety Committee. On 18 February 2013, the Company announced that Ms Jeremiah was appointed the Chair of the Board effective 1 March 2013.

Ms Jeremiah is a non-executive director of Allegheny Technologies, Inc. (New York Stock Exchange) and First Niagara Financial Group (NASDAQ). She also serves on the board of two non-profit organisations in the United States. She has also served as a non-executive director of EQT, Inc. (New York Stock Exchange)

Ms Jeremiah's professional career includes several senior executive roles for Alcoa, Inc. She retired as Alcoa's Executive Vice President for Corporate Development in 2009 and in that role was responsible for leading Alcoa's worldwide acquisition and divestiture activity as well as its strategic analysis of its business. Prior to her corporate development responsibilities, she held several senior positions in Alcoa's legal department, including corporate secretary and assistant general counsel.

Ms Jeremiah received her JD from the University of Virginia School of Law and BA in Political Science from Brown University.

## **Peter St George**

Peter St George was appointed a Director of the Company on 21 February 2007 and is a member of the Remuneration and Nominations Committee and the Audit, Compliance and Risk Committee.

Mr St George currently is a director of Dexu Property Group and First Quantum Minerals Limited (Toronto Stock Exchange). He also has served as a director of SFE Corporation Limited and Spark Infrastructure Group.

Mr St George's professional experience includes serving as Chief Executive/Co-Chief Executive of Salomon Smith Barney Australia/NatWest Markets Australia from 1995 to 2001 and more than 20 years of experience in senior corporate advisory roles within NatWest Markets and Hill Samuel & Co in London.

He qualified as a Chartered Accountant in South Africa and received his MBA from the University of Cape Town.

## DIRECTORS' MEETINGS

The following table sets out for each Director the number of Directors' meetings (including meetings of committees of Directors) held and the number of meetings attended by each Director during the financial year while he/she was a Director or committee member. The table does not reflect the Directors' attendance at committee meetings in an "ex-officio" capacity.

	Board of Directors		Remuneration & Nominations Committee		Audit, Compliance & Risk Committee		Environment, Health & Safety Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Bruce Brook	7	7			4	4	4	4
Roger Brown	7	7	4	4			4	4
Roy Franklin	7	7			4	4	4	4
Tanya Fratto	7	7	4	4			4	4
Barbara Jeremiah	7	7			4	4	4	4
Craig Kipp <sup>1</sup>	5	5						
David McLemore <sup>2</sup>	7	7	3	3				
Peter St. George	7	7	4	4	4	4		

(1) Mr Kipp resigned from the Board effective 3 October 2012.

(2) Mr McLemore attended the 5 November 2013 Remuneration and Nominations Committee meeting in an ex-officio capacity while serving as interim Chief Executive Officer.

In addition to the regular meetings listed above, several special meetings of the Board and its committees were held during the course of the year.

## COMPANY SECRETARIES

Fabrizio Rasetti was appointed Company Secretary on 26 February 2007. He joined Boart Longyear in April 2006. Prior to that time, he worked at SPX Corporation (New York Stock Exchange), where he held various management roles in the legal department and for business development over a period of almost nine years. He also worked in the private law firms of Howrey & Simon and Towey & Associates in Washington, DC. He received his BS in Foreign Service and JD from Georgetown University.

Paul Blewett was appointed Company Secretary on 21 October 2008. Prior to joining Boart Longyear he was General Counsel and Company Secretary for Hills Industries Limited (ASX:HIL). Prior to Hills Industries, he held a number of positions with other Australian Securities Exchange listed companies, following private legal practice for eight years with the Lynch Meyer law firm in Adelaide, South Australia. Mr Blewett received his LLB from the University of Adelaide in 1983.

## PRINCIPAL ACTIVITIES

Boart Longyear is a provider of drilling services, drilling equipment and performance tooling for mining and drilling companies globally. It conducts its business activities through two operating divisions, Global Drilling Services and Global Products.

The Global Drilling Services division operates in over 40 countries on five continents for a diverse mining customer base spanning a wide range of commodities, including copper, gold, nickel, zinc, uranium, and other metals and minerals. Among other advantages, Boart Longyear is able to offer the broadest range in its market segments of drilling technologies to suit its customers' requirements. Those technologies include surface and underground diamond coring, reverse circulation, rotary and sonic drilling. With its global footprint and drilling expertise, the Company's drilling services strategy is to support all phases of its customers' operations, from greenfield exploration through mine development and production to mine closure.

The Global Products division designs, manufactures and sells drilling equipment and performance tooling to customers in over 100 countries. These products are used by the Company's own Drilling Services division, as well as other drilling services companies in the mineral exploration, mining, and energy industries. The Global Products division's strategy

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has been to position itself as the innovation leader in the segments in which it competes and to offer a full range of products within those segments. The Products division also has invested in recent years in developing a stronger aftermarket service and support business to provide drill equipment commissioning, training, maintenance programs, spare parts and emergency parts kits.

Boart Longyear's overall strategy is to be the "One Source" for drilling services, drilling equipment and performance tooling for mining and drilling companies globally. The Company believes it gains a significant advantage from its integrated structure – i.e., from the interaction of its drilling services and products divisions – both for the product innovations it can deliver to the market as well as the efficiencies and productivity gains its drilling services operations can enjoy from being early adopters of new technologies. The free flow of expertise, knowledge and ideas between the Company's divisions allows the Company to deliver a continually improving range of products and services to customers worldwide.

The Company has made significant investments in both divisions to pursue organic growth since the recovery of its markets from the Global Financial Crisis in 2009. In 2012 and 2011, for example, annual capital expenditures were \$282,794,000 and \$220,947,000 respectively. In the Global Drilling Services division, much of the available capital has been directed toward modernising and diversifying the types of rigs in its fleet. In addition, in 2012 and 2011 significant investments were made to expand on a global basis its mine water services business, which previously had been based predominantly in the United States. Boart Longyear estimates global mine water services demand be over \$1 billion, and the Company believes its dual-tube flooded reverse drilling technology and experience in the challenging ground conditions in Nevada in the US make it uniquely well-positioned to satisfy international demand. Similarly, the Global Products division has focused its investment on developing and sustaining a pipeline of industry-leading products for which it can demand premium pricing. Over the past three years, this emphasis on research and development has resulted in over 500 patent applications and the introduction of approximately two dozen significant new products.

The Company's growth and financial performance, however, is challenged and tempered by a variety of risks inherent to the industries and geographies it serves. Among them is the cyclical nature of minerals mining, which can be affected significantly and quickly by factors beyond the Company's control, such as mining company exploration budgets, commodity prices, availability of financing for junior mining companies and global credit markets. While such cycles often impact geographies, commodities, drilling types or mine life stage activity differently, history indicates they can be significant and occur quickly. Additionally, sovereign, compliance and security risks in developing countries have at times affected the Company's financial performance by requiring the suspension or reduction of activity in key developing markets or causing the Company not to pursue entry into new geographies. When operating in such geographies, the Company incurs additional cost to operate compliantly and keep its people and resources safe and maintain detailed contingency arrangements in the event of crisis situations.

## Financial Overview

	2012 US\$ Millions	2011 US\$ Millions	Movement %
Revenue	2,011.5	2,020.3	Flat
NPAT	68.2	159.9	Down 58%
Adjusted NPAT	114.2	159.9	Down 29%
EBITDA	254.3	356.3	Down 29%
Adjusted EBITDA	321.9	356.3	Down 10%
Cash from operations	64.2	197.7	Down 61%
Earnings per share (basic)	15.0 cents	35.1 cents	Down 57%
Earnings per share (diluted)	14.8 cents	34.8 cents	Down 57%

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## Drilling Services

US\$ Millions	2011	1st Half 2012	2nd Half 2012	Total 2012	% Change
Revenue	1,448	817	699	1,516	5%
EBITDA	296	177	113	290	-2%
EBITDA Margin %	20%	22%	16%	19%	

## Products

US\$ Millions	2011	1st Half 2012	2nd Half 2012	Total 2012	% Change
Revenue	572	282	213	495	-13%
EBITDA	132	68	39	107	-19%
EBITDA Margin %	23%	24%	18%	22%	

Global Drilling Services recorded revenue of \$1,516,203,000 for the full year, up 5% on the previous year and a record revenue performance for the division.

However, lower rig utilisation and a softer pricing environment in the second half contributed to a 2% decline in Global Drilling Services EBITDA to \$289,602,000 for the full year. This result also reflects the timing lag between declining Global Drilling Service revenues in the second half and the take-out of costs, mainly headcount reductions, in response. Drill rig utilisation averaged 69% for 2012, compared to 75% in 2011.

Revenue from Global Drilling Products, including drilling equipment and performance tooling, was down 13% for the full year to \$495,304,000, while EBITDA declined 19% to \$107,239,000. Slowing demand in the second half of 2012 was evident in the higher fixed-cost-per-unit for products in this period.

In an encouraging sign for near-term market conditions in Global Drilling Products, the sharp decline in the order backlog that commenced in the second quarter of 2012 stabilised by year end, and is trending favourably.

## **DIVIDENDS**

The Company paid aggregate dividends of US 12.0 cents per share during the financial year.

- A dividend of 5.6 US cents per share (total of \$25,825,151) was paid on 13 April 2012. The dividend, which was for the second half of 2011, was 15% franked at the Australian corporate taxation rate of 30%. None of the unfranked portion of the dividend was conduit foreign income; and
- A dividend of 6.4 US cents per share (total of \$29,514,457) was paid on 10 October 2012. The dividend, which was for the half-year ended 30 June 2012, also was 15% franked at the Australian corporate taxation rate of 30%. None of the unfranked portion of the dividend was conduit foreign income.

On 18 February 2013, the Directors determined to pay a dividend of 1.0 US cent per share (for a total of approximately \$4,611,000) for the second half of 2012. The dividend is expected to be paid on 12 April 2013 to shareholders of record as at 15 March 2013. The dividend will be 35% franked at the Australian corporate taxation rate of 30%. All of the unfranked portion of the dividend will be conduit foreign income. The dividend is not included as a liability in the 31 December 2012 financial statements.

Directors expect to continue franking future dividends at 35% until all available franking credits are utilised.



## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Company implemented a series of restructuring actions and cost reductions in the second half of 2012 to address declining revenues in many of its core markets. The restructuring charges and related impairments associated with those actions totalled approximately \$67.6 million in the financial year and included significant costs associated with the reduction of approximately 2,500 overhead and direct positions and the closure of several facilities. Approximately \$70 million in annual cost reductions for 2013 were achieved by restructuring activities commenced in late 2012.

## EVENTS SUBSEQUENT TO REPORTING DATE

On 15 February 2013, the Company amended its revolving bank debt facility to increase the aggregate principal amount available under the facility to \$450 million from \$350 million. The increase was completed by the Company primarily to provide additional liquidity and flexibility as insurance against current market uncertainty. A required reduction of \$50 million of commitments will occur 18 months after the closing date of the amendment, bringing the total outstanding commitments at that time to \$400 million. All other material terms and conditions of the revolving credit agreement, including covenants, maturity and pricing, remain unchanged.

On 18 February 2013, the Company announced its intent to appoint Mr Richard O'Brien as President and Chief Executive Officer of the Company effective approximately 1 April 2013. Mr O'Brien currently serves as President and CEO of NYSE-listed Newmont Mining Corporation, one of the world's largest gold producers, and will join the Company upon completion of his employment there. He brings 25 years of operational and financial experience in the natural resources, energy and power sectors to his new role.

## FUTURE DEVELOPMENTS

The Company remains focused on its core mining markets and intends to continue to invest in high-potential organic growth opportunities in those markets in a selective and disciplined manner. Examples of such opportunities include ongoing expansion of the Company's mine water drilling services business as well as developing the next generation of consumable products, rod-handling solutions for the entire range of drilling rigs the Company offers and other products that enhance safety and productivity. In addition, the Company continues to evaluate operational enhancements to improve operating margins, cash generation and debt reduction, such as an ongoing third-party evaluation of its overhead cost structure and initiatives to reduce inventory and working capital. The Company may also elect to expand through strategic acquisitions.

Further information about likely developments in the operations of the Company in future years, expected results of those operations, and strategies of the Company and its prospects for future financial years has been omitted from this report because disclosure of the information would be speculative or prejudicial to the Company.

## CORPORATE GOVERNANCE STATEMENT

The Board believes that high standards of corporate governance are an essential prerequisite for creating sustainable value for shareholders. This statement summarises the main corporate governance policies and practices in place within the Company. Unless otherwise noted, the Company has followed the best practice recommendations set out in the ASX Corporate Governance Council's Principles and Recommendations (the "ASX Guidelines").

The Company's most significant governance policies, including its Board and committee charters, diversity policy and Code of Conduct, may be found on the Company's website at [www.boartlongyear.com](http://www.boartlongyear.com).

### Role of the Board

The Board charter sets out the powers and responsibilities of the Board. These include:

- providing strategic direction for, and approving, the Company's business plans and objectives;
- monitoring the operational and financial position and performance of the Company;
- establishing a sound risk management framework for the Company and ensuring that management takes reasonable steps to implement appropriate controls and otherwise mitigate risks;
- requiring that robust financial and other reporting mechanisms are put in place to provide adequate, accurate and timely information to the Board and shareholders regarding all material developments;
- appointing and evaluating the performance of the Chief Executive Officer, approving other key executive appointments and planning for executive succession;
- reviewing and approving remuneration for senior executives;
- approving the Company's annual operating budget and business plans and monitoring the management of the Company's capital, including any material capital expenditures, acquisitions or divestitures;

- monitoring procedures to ensure compliance with legal and regulatory requirements and accounting standards; and
- determining the level of authority delegated to the Chief Executive Officer and Company management.

The Board has delegated to the Chief Executive Officer and to the Company's Executive Management Committee ("EXCO") responsibility for managing the business of the Company in compliance with Board policies, legal requirements and the fundamental standards of ethics and integrity reflected in the Company's Code of Business Conduct. The Board policies and charter set clear thresholds for management authority and ensure accountability to, and oversight by, the Board or its committees for the approval of specific matters, including remuneration of senior executives, changes to the Company's share capitalisation, declaration of dividends, the Company's annual operating budget, material acquisitions and divestitures and changes to corporate strategy. Delegations are regularly reviewed by the Board and may be changed by the Board at any time.

## Composition of the Board and Director selection process

At the date of this report, the Company has seven non-executive Directors, including Mr McLemore, the Chairman of the Board, who has acted as the Company's Interim Chief Executive Officer since 3 October 2012.

Boart Longyear recognises that the ability of its Board to fulfill its role properly requires that the Directors collectively have an appropriate range of skills, experience and expertise, including experience in accounting and financial reporting, operational expertise and experience in the markets the Company serves. Among other things, the Board considers the results of its periodic Board performance assessments and Company strategy reviews to determine whether to recruit additional Board talent. The Board recruited two new non-executive Directors in 2011 and has developed a list of potential director candidates should an opening on the Board, or need for a particular skill, arise.

## Board independence

The Company recognises that a majority of the Directors should be independent, and the Board reviews Director independence at least annually. In assessing the independence of non-executive Directors, the Board has considered the criteria detailed in the Board charter, including, whether a Director:

- is a substantial shareholder of the Company, or otherwise is associated directly or indirectly with a substantial shareholder;
- has been employed in an executive capacity by the Company within the last three years or did not become a Director within three years of being so employed;
- has been a principal of a material professional advisor or a material consultant to the Company within the last three years;
- is a partner in, material shareholder or officer of, or otherwise has a significant association with, a material supplier or customer of the Company;
- has a material contractual relationship with the Company other than as a Director; or
- has received more than A\$100,000 from the Company during the past year other than as compensation for the Director fulfilling his duties as a Director.

The Board charter also defines materiality as being an amount in excess of 5% of Boart Longyear's or the advisor's, supplier's or customer's revenue or expenses, as the case may be.

The Board meets the requirements of the charter and the recommendations of the ASX Guidelines, as a majority of the Board is comprised of non-executive Directors and all Directors, including the Chairman of the Board and the chairmen of the three Board committees, meet the independence criteria listed above. In particular, the Board has considered whether Mr McLemore's temporary assumption of the chief executive officer's duties compromises his independence or status as a non-executive director and has determined that, save for the period of his service as Interim CEO, it does not, given the temporary nature of the assignment. During such period, Mr. McLemore temporarily relinquished his responsibilities as Chairman to another non-executive director and attended the November 2012 and February 2013 meetings of the Remuneration and Nominations Committee in an ex officio capacity, as permitted in the committee's charter. Further, although Mr McLemore received additional fees of \$37,500 per month while acting as Interim CEO, he was not eligible to participate in the Company's short term incentive or long term incentive programs.

In addition, the Board has considered each Director's previous and current relationships with the Company's customers, suppliers, consultants, professional advisors and substantial shareholders. The Board notes that two non-executive Directors, Bruce Brook and Roy Franklin, each hold positions in companies with which the Company currently has commercial relationships or had commercial relationships during 2012. Mr Brook is a non-executive director of Newmont Mining Corporation and Mr Franklin is the non-executive Chairman of Keller Group plc. Newmont is a current customer of the Company's Drilling Services business. Keller Group, through its Hayward Baker geotechnical construction engineering business, also was a customer in 2012 of the Company's discontinued infrastructure drilling services group.

The Board has considered Mr Brook's and Mr Franklin's cases separately and has concluded that these relationships are not material and do not interfere with the relevant Director's exercise of independent judgment. Nor do these

relationships affect their ability to act in the best interests of the Company's shareholders. The relationships are arm's length customer-supplier relationships based on normal commercial terms. Neither Mr Brook nor Mr Franklin participates directly or indirectly in those relationships or the terms on which the companies conduct business with Boart Longyear, and they were not involved in any procurement or other Board decision-making regarding the companies with which they have an association. The Board also notes the importance of having Directors with experience in the Company's markets serving on the Board.

## Board processes

The Board meets at least six times a year and convenes additional meetings as required. The agenda for Board meetings is prepared by the Chief Executive Officer, the Secretaries, and other senior management in conjunction with the Chairman and, along with supporting papers, is distributed to Directors prior to each meeting. Certain senior executives participate in Board and committee meetings to provide the Directors with access to key operating, financial and compliance personnel on a regular basis. In addition, the Directors have access to other Company employees in Board and committee meetings and in other settings. The Board endeavours to schedule at least one meeting annually at one of the Company's significant operating locations to meet with the location's management and better familiarise the Board with those operations and the Company's risks and opportunities. In 2012, Board meetings were held in the Company's regional offices in Adelaide, Australia, and Santiago, Chile, which meetings provided the Board the opportunity to more closely review those regional operations and meet directly with key regional management personnel.

## Board committees

The Board is assisted by the following three permanent committees in discharging its responsibilities:

- Audit, Compliance & Risk Committee;
- Remuneration & Nominations Committee; and
- Environment, Health & Safety Committee.

The committees have written charters that are reviewed annually. All non-executive Directors may attend any committee meeting. The Chairman of each committee reports on committee proceedings at the next Board meeting, and minutes of all committee meetings are circulated to Directors in subsequent Board meeting papers.

## Audit, Compliance & Risk Committee

The Audit, Compliance & Risk Committee assists the Board to fulfill its governance and disclosure responsibilities in relation to the quality and integrity of the Company's financial reports, internal controls, risk management framework and external audits. The Committee also monitors compliance with laws and regulations and the Company's Code of Conduct and policies. The Committee makes recommendations to the Board regarding the appointment, performance and independence of the external auditor and must approve all non-audit services performed by the external auditor or its affiliates.

The Committee is currently comprised of four non-executive Directors, all of whom are independent Directors and at least one of whom has relevant accounting qualifications or experience. The Committee consisted of the following non-executive Directors during the financial year:

- Bruce Brook – Chairman
- Roy Franklin
- Barbara Jeremiah (appointed 30 January 2012)
- Peter St. George

## Remuneration & Nominations Committee

The Remuneration & Nominations Committee supports the Board by overseeing matters related to executive and Director remuneration and the composition and performance of the Board. The Committee's responsibilities include:

- developing and reviewing remuneration plans, including annual bonus plans and long-term incentive plans, including equity-based incentive plans;
- developing performance objectives for the Chief Executive Officer and his direct reports and reviewing performance against those objectives;
- overseeing policies for recruitment, retention and succession planning for Directors and key executive positions;
- promoting workforce diversity and monitoring the Company's performance against established diversity objectives; and
- reviewing the composition of the Board and monitoring the performance of the Board and the Directors.

The Committee consisted of the following non-executive Directors during the financial year:

- Roger Brown – Chairman
- Tanya Fratto
- David McLemore (Committee membership currently inactive while serving as Interim CEO)
- Peter St. George

Mr Brown became Chairman of the Committee effective 1 March 2012, contemporaneously with Mr McLemore's resignation of the chairmanship.

## Environment, Health & Safety Committee

Boart Longyear places a high priority on safety, management of operational risks and compliance with environmental laws and regulations. The Environment, Health & Safety Committee assists the Board in the effective discharge of its responsibilities in relation to these matters, including Australia's work health and safety legislation, and has authority to investigate any matter within the scope of the Committee's charter.

Among its responsibilities, the Committee:

- assists the Directors to maintain an up-to-date knowledge of work health and safety matters;
- ensures that the Company has effective resources, systems and processes for monitoring and mitigating operational risks;
- reviews and assesses the Company's policies and practices to ensure compliance with environmental and operational regulatory requirements, including through internal and external audits; and
- reviews the results of investigations of any major health, safety or environmental incidents occurring in the Company's operations.

The Committee consisted of the following non-executive Directors during the financial year:

- Roy Franklin – Chairman
- Bruce Brook
- Roger Brown
- Tanya Fratto
- Barbara Jeremiah (appointed 30 January 2012)

## Board and Director performance

The Board has a formal assessment process that includes performance assessments of the Board committees and individual Directors on an approximately annual basis. As part of the assessment process, each Director completes a questionnaire on the operation of the Board and its committees and the performance and contributions of the Directors. The results of the questionnaires are compiled by the Chairman of the Board or committee, as applicable, and discussed with each Director individually.

The most recent Board performance evaluation was completed in the first half of 2012 with the assistance of an external advisor, who prepared a questionnaire for the Directors and certain members of senior management and compiled and reported the results in a report to the Chairman and the Directors. The Chairman then reviewed the results and recommendations with the Directors and senior management.

In addition, the Board committee chairmen conducted performance assessments of their respective committees and members. The committee assessments commenced in and were completed in April and May 2012.

## Director induction process

New Directors undergo an induction process to inform them of the nature of the Company's business, strategies, risks and issues, and expectations about Director performance, including awareness of continuous disclosure principles. The terms of a non-executive Director's appointment are set out in a letter to the Director from the Company. The letter details the Director's obligations, including to:

- act in the best interests of the Company at all times;
- submit to re-election from time to time as required by the Company's constitution;
- notify the Chairman of any change in circumstances that might prevent the Director from being regarded as independent;
- comply with the Company's constitution, governance policies and all applicable legal requirements, including the Company's Securities Trading Policy;
- devote sufficient time to prepare for and attend Board meetings and otherwise to discharge the Director's duties;

- keep confidential, and not use for the benefit of any person or party other than the Company, any confidential information of the Company; and
- disclose any directorships, business interests or circumstances that might represent conflicts of interests or reasonably be perceived to interfere with the exercise of the Director's independent judgment, or have an adverse impact on the Company's reputation or public profile.

The appointment letter also confers certain benefits and rights upon the Director, including indemnities and insurance coverage for liabilities arising out of the discharge of the Director's duties and unfettered access to papers, information and employees of the Company. In addition, Directors may, with the approval of the Chairman, consult with professional advisors.

The Company's induction process also includes meetings with senior management, including the leaders of the Company's business units and administrative functions.

## Executive performance

The Company employs a structured performance evaluation process to ensure that senior executives are motivated to deliver shareholder value and are accountable to the Board at all times. The process commences early each financial year when the Board establishes and approves corporate performance objectives as well as individual performance objectives for senior managers of the Company. As detailed more fully in the Remuneration Report, performance against those objectives determines the potential incentive the executive may receive under the Company's annual bonus plan. The Chief Executive Officer and other senior managers of the Company participate in an annual short-term incentive plan that is based on the achievement of the annual corporate operating margin, safety and revenue growth performance objectives as well as certain individual strategic initiatives approved by the Board. Individuals are advised annually of their target bonuses, which in 2012 ranged from 50% to an additional 100% of base pay for senior executives. Certain other corporate executives and managers also participate in the corporate bonus plan at lower target levels.

Exceptional individual and corporate performance can increase actual bonuses paid under the Corporate Bonus Plan to up to 150% of a participant's target bonus amount. The Company's executive performance assessment process for 2012 and goal-setting process for 2013 commenced in January 2013 and will be completed in March 2013.

## Risk Management

The Board recognises that disciplined risk management and sound internal controls are fundamental to good corporate governance, and the Board and senior management accept their responsibility to identify and manage risk on an ongoing basis. The Company's risk management framework consists of a number of controls, including:

- documented systems, procedures, authorities and delegations for the orderly management of the Company;
- policies and ethical standards, and ensuring that employees understand such obligations;
- risk-based internal audits to test the Company's controls and assist management with the enforcement of Company policies;
- certifications from management and process owners throughout the Company regarding the design and operation of risk management systems, internal controls and compliance; and
- a formal risk management system, overseen by the Director of Risk Management, based on a written risk management policy, regularly regional and corporate risk identification and mitigation reviews and the findings of Company audits and investigations.

The Board reviews on a semi-annual basis the risk registers prepared by regional and corporate management. It also is assisted and advised in its oversight of the Company's risk management system by two of its committees: the Environment, Health & Safety Committee with respect to health safety and operational risks generally and the Audit, Compliance & Risk Committee with respect to financial and compliance risks. Those committees review the annual audit plan of the Company's internal audit function and Environment, Health & Safety group, and, along with senior management, consider the findings of those audits and confirm the implementation of corrective actions to mitigate identified risks and deficiencies. The Audit, Compliance & Risk Committee also monitors compliance programs managed by the Company's legal function or outside counsel and reviews the significant findings of any compliance reviews or investigations.

## Integrity of financial reporting

In accordance with the ASX Guidelines, the Interim Chief Executive Officer and Chief Financial Officer have certified the following (among other detailed certifications) to the Board in writing:

- (1) in their opinion, after having made appropriate enquiries, with regard to the integrity of the financial statements of the Company for the year ended 31 December 2012:

- (i) the financial statements for the financial year comply with Accounting Standards and have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - (ii) the financial reports, and notes thereto, present a true and fair view, in all material respects, of the financial position and performance of the Company in accordance with section 297 of the Corporations Act 2001; and
  - (iii) 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) to the best of their knowledge and beliefs after having made appropriate enquiries, with regard to risk management and internal control systems of the Company for the year ended 31 December 2012:
  - (i) the statements made in (1) above regarding the integrity of the financial statements are founded on a sound system of risk management and internal compliance which, in all material respects, implements the policies adopted by the Board of Directors;
  - (ii) the risk management and internal compliance system, to the extent it relates to financial reporting, is operating effectively in all material respects based on the risk management model adopted by the Company; and
  - (iii) nothing has come to management's attention since 31 December 2012 that would indicate any material change to the statements made in 2(i) and 2(ii) above.

These statements are supported by certifications made to the Interim Chief Executive Officer and Chief Financial Officer by the regional and financial managers of each of the Company's divisions. They provide a reasonable, but not absolute, level of assurance and do not imply a guarantee against adverse events or more volatile outcomes arising in the future. A number of internal control deficiencies relating to financial reporting have been identified during the financial year, and in such cases, where deemed appropriate, additional tests of procedures or tests of resulting account balances included in the financial statements have confirmed that there has been no material impact on the financial reports. Management also has reported to the Board as to the effectiveness of the Company's management of material business risks.

## Code of business conduct and ethical standards

Boart Longyear's Directors, management and employees are required to act with integrity at all times and maintain high ethical standards. The Company has adopted a Code of Business Conduct that covers a broad range of matters, including:

- conflicts of interest and the preservation and proper use of Company assets;
- protection of confidential and commercially sensitive information;
- employment legislation;
- competition law and fair dealing;
- environmental, health and safety considerations;
- improper payments, bribery and money laundering, including transactions with government officials;
- financial reporting and record-keeping; and
- each employee's affirmative duty to report violations of policy or law.

The Code of Business Conduct is available on the Company's website at [www.boartlongyear.com](http://www.boartlongyear.com). The Company supplements the Code of Business Conduct with additional policies that provide more detailed guidance on substantive legal requirements and other principles and requires employees to successfully complete assigned compliance training courses on an ongoing basis.

In addition, the Company maintains, and actively promotes the use of, several systems for employees and other persons to report potential violations of the Code of Conduct and other policies. Reported concerns are investigated by the Company's legal department or external legal counsel and reported to the Board.

## Workforce diversity

In 2011 the Board of Directors established a workforce diversity policy for the Company. The complete policy can be found under the governance section on the Company's website ([www.boartlongyear.com](http://www.boartlongyear.com)).

The policy sets out the Company's commitment to creating a diverse workforce that is representative of the diverse communities in which the Company operates and a work environment where people are free to achieve their best, without encountering prejudice regarding their gender, ethnicity, age, disability, sexual orientation, religion or cultural differences.

The Remuneration and Nominations Committee of the Board of Directors has responsibility for oversight of the policy. The Committee also reviews the policy at least annually and oversees its implementation, including progress made toward measurable objectives for achieving desired diversity representation and the continued relevance of those objectives.

Diversity objectives achieved in 2012 include:

- Establishment of a system to measure and report global gender representation at more localized levels by geography, business unit or function;
- An increase in female representation among senior managers from 5% in 2010 to 10% in 2011 to 13% in 2012; and
- A specific review of women in senior management positions as part of the Company's formal leadership assessment, development and succession management process.

The levels of gender diversity as at 31 December 2012 are:

Gender Diversity	Male	Female
Total Employees	92%	8%
Total Employees (excl. Drillers and Driller Helpers)	83%	17%
Senior Managers	87%	13%
Board of Directors	71%	29%

## Environmental performance

Boart Longyear is committed to achieving a high standard of environmental performance. The Company's operations are subject to various environmental laws and regulations in the many jurisdictions in which it operates, including regulations under both Commonwealth and state legislation in Australia. The Board, with the assistance of the Environment, Health and Safety Committee, monitors environmental performance against relevant legislation and Company objectives and monitors remedial action, when required.

In 2011, the Board approved a corporate environmental sustainability initiative that outlines specific waste and emission reduction programs to be developed and implemented by the Company's operations over three years. Additional information about the programme, including some of the early results it has yielded, is available on the Company's website at [www.boartlongyear.com](http://www.boartlongyear.com).

The Directors are not aware of any business unit operating in breach of environmental regulations during the financial year, or as at, the date of this report, under any applicable law of the Commonwealth or of a State or Territory. The Company's Environmental, Health and Safety Policy also can be reviewed on the Company's website.

## Continuous disclosure

The Board aims to ensure that all of its shareholders and the market in general are kept fully and promptly informed of all potentially price-sensitive developments and changes that are likely to materially affect the Company's operations, financial results and business prospects. The Company's External Communications Policy specifies how the Company will meet its continuous disclosure obligations under ASX Listing Rule 3.1 and sets out procedures for Company employees to report potentially price-sensitive information to management and the Board.

The Company produces financial statements for its shareholders and other interested parties twice per year. In addition, the Company endeavours to provide earnings guidance to shareholders on a regular basis throughout the year. Shareholders have the right to attend the Annual General Meeting in May and are provided with an explanatory memorandum on the resolutions proposed through the Notice of Meeting. The Company also has an investor relations function to manage and assure prompt and relevant communications with shareholders and the market generally, and the Company posts material information for its shareholders, such as ASX announcements and financial results, on its website at [www.boartlongyear.com](http://www.boartlongyear.com).

## Donations

Boart Longyear contributes to the communities in which it works with donations, sponsorship and practical support. The Company does not make political donations. The Company's Charitable Giving Policy formally establishes the framework and requirements for all charitable giving by, and on behalf of, all Company operations and units. The policy aims to align Company charitable giving with the charitable interests of employees and regional operations by soliciting proposals directly from them and targeting projects and causes in which they participate actively. The Company especially targets projects that have clear objectives and outcomes promoting the following:

- education and opportunities for children – programs and opportunities that assist young people to develop marketable skills and competencies, particularly in the areas of engineering, science and technology; and

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- health and preventive care – programs that improve the health and safety of employees, their families and their communities by improving access to critical resources and addressing endemic illnesses, including providing access to clean water sources and supporting the development of malaria vaccinations and treatments.

The Company's charitable giving is coordinated by the Company's regional leadership teams and overseen by its Executive Committee.

## DIRECTORS' SHAREHOLDINGS

The following table sets out each Director's relevant interest in shares, debentures, and rights or options over shares or debentures of the Company or a related body corporate as at the date of this report.

	Fully paid ordinary shares	Rights and options	Total
Bruce Brook	134,423	-	134,423
Roger Brown	30,000	-	30,000
Roy Franklin	45,000	-	45,000
Tanya Fratto	20,000	-	20,000
Barbara Jeremiah	50,000	-	50,000
David McLemore	155,861	-	155,861
Peter St. George	157,450	-	157,450

In August 2011, the Board adopted a Non-Executive Director shareholding guideline, which recommends that non-executive Directors acquire and hold at least 30,000 Company shares within five years of their appointment. The target share amount was established to be roughly equivalent to one year's directors' fees and was based on the value of the Company shares at the time. The target shareholding amount may be adjusted from time-to-time to track movements in the Company's share price.

## GRANTS OF SHARES, RIGHTS OVER SHARES AND OPTIONS GRANTED TO DIRECTORS AND EXECUTIVES

No shares or rights over shares of the Company that have been granted to non-executive Directors since the Company's initial public offering in April 2007. Share and rights over shares granted to executives of the Company are included in the Remuneration Report. As detailed more fully in the Remuneration Report, the Company has at various times in 2008, 2009 and 2010 granted options to the former Chief Executive Officer, Mr Kipp, and other members of senior management. 250,000 options granted to Mr Kipp in April 2008 upon his nomination as the Company's chief executive vested in accordance with their terms as a result of his termination in October 2012. A further 345,000 options granted to Mr Kipp and nine other senior executives in June 2009 vested in 2012. None of those vested options was exercised during the financial year by the option holder, and no shares or interests have been issued during the financial year as a result of exercise of options.

## DIRECTORS' AND OFFICERS' INTERESTS IN CONTRACTS

Except as noted herein, no contracts involving Directors' or officers' interests existed during, or were entered into since the end of the financial year other than the transactions detailed in Note 34 to the financial statements.

## PROCEEDINGS ON BEHALF OF 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 financial year.



## REMUNERATION REPORT

### INTRODUCTION

This remuneration report sets out Boart Longyear's remuneration policies and practices, the rationale underlying them and their outcomes.

The Company's policies have been developed within a framework that seeks to fairly reconcile and balance:

- the overall objective of attracting, retaining, aligning and motivating management in order to achieve the highest levels of performance from them for the benefit of all shareholders;
- high standards of fairness, transparency and sound corporate governance principles;
- the particular business environment in which Boart Longyear operates, recognising that:
  - o the Company's business is global and, consequently, the senior executive team is based primarily outside of Australia and is recruited internationally;
  - o the markets in which the Company operates can have strong cyclical characteristics which place equal performance pressures on management in an upswing as in down cycles; and
  - o importantly, the Company is incorporated and listed in Australia and must comply with local corporate regulatory requirements and practices.

As a result of changes to the Company's remuneration practices and policies in 2010, combined with the revised structure and improved transparency of the remuneration report, shareholders approved the 2010 and 2011 remuneration reports with greater than 90% in favour. This 2012 remuneration report maintains the improvements the Company made to the report over the past two years.

Some of the specific actions and events that impacted 2012 outcomes or are otherwise discussed within this report include:

- selection of a new independent compensation consultant to the Committee (see section 2.1);
- development of a Protocol to govern the relationship with the independent compensation consultant to comply with obligations under Part 2D.8 of the *Corporations Act*; (see section 2.1);
- modification of the Long Term Incentive Plan ("LTIP") such that, for Performance Rights granted beginning 2013, the ROE performance metric will now be calculated on a linear basis rather than at amounts tied to a range of performance achievement. In addition, the three-year average ROE performance required to achieve the target pay-out was increased to 9.5% (see below and section 3.4);
- the Board's determination to evaluate the design and implementation of an executive stock ownership guideline during 2013;
- appointment of Roger Brown as the new Remuneration Committee Chairman to separate the Committee and Board chairmanships;
- payment or accrual of contractual termination benefits to the former Chief Executive Officer;
- payment of additional director fees to the Chairman for his service as Interim CEO; and
- decreased 2012 STI plan outcomes compared to 2011 as a result of difficult business conditions affecting the Company's markets.

These items are discussed further below or elsewhere in this Remuneration Report.

### **Change of LTI Plan ROE performance payout to a linear calculation**

Effective with grants made after 1 January 2013, the Board has modified the three-year average ROE payout matrix for the LTI Plan from payouts based on achieving certain ranges of average ROE to a straight linear calculation. The change in methodology for calculating achievement of plan targets better aligns management actions with shareholder interests by mitigating the potential for risk-taking that may be inconsistent with long-term value creation in order to get to the "next level" of payout.

## Chief Executive Officer transition

In October 2012, Craig Kipp's employment with the Company was terminated and Chairman David McLemore was appointed Interim Chief Executive Officer. Mr McLemore has been involved with Boart Longyear since 2005, has served on its Board since 2007 and been the Company's Chairman since 2010. During his tenure he has helped direct and guide the Company through a number of significant transitions, including private equity ownership and public listing. In light of the substantial additional demands of serving as interim CEO, the Board approved an additional monthly fee of \$37,500 for Mr McLemore to be paid for the duration of his Interim CEO duties which is not to exceed six months. Mr McLemore will not be eligible to participate in any incentive programs as Interim CEO. Further details are outlined in section 6.4 of this report.

Consistent with Mr Kipp's employment agreement and shareholder approval at the Company's 2011 Annual General Meeting, Mr. Kipp is entitled to the following termination benefits:

- severance payments equal to twelve months of his base salary;
- pro-rata payment of his 2012 annual bonus under the Company's Corporate Bonus Plan through his termination date, subject to achievement of specified corporate and personal goals;
- a waiver of medical premiums for twelve months;
- accelerated vesting on a pro-rata basis of retention rights granted under the LTI Plan;
- eligibility for pro-rata performance rights granted under the LTI Plan to vest in accordance with established performance conditions at the normal testing date; and
- accelerated vesting of all options granted under the 2008 Option Plan.

The expense of these termination benefits and equity awards has been brought forward as required under applicable accounting standards and fully expensed in the 2012 financial statements. The extent to which Mr Kipp receives any value from unvested performance rights for which he remains eligible depends upon the Company's achievement of ROE performance metrics during the relevant performance period for those awards.

In exchange for these termination benefits, Mr Kipp is subject to a non-competition and non-solicitation agreement for twelve months from the date of his termination. The Company may elect to extend these restrictive covenants for up to an additional twelve months by continuing Mr Kipp's monthly severance payments for the relevant extension period. Further, should Mr Kipp relocate within 12 months from the date of his termination the Company may still be required to reimburse him for moving expenses not to exceed \$100,000. No tax gross-up payment will be made in association with the termination benefits Mr Kipp will receive.

## 2012 financial performance impact on STI outcome

After very strong first half financial performance in line with expectations, the Company experienced a marked contraction in its core markets during the second half of the year. The Company was unable to reduce its cost structure as quickly as revenues declined due to statutory employee notice periods and other factors, and operating margin fell from 13% in 2011 to 10.8% in 2012. Further, the Company achieved no year-over-year revenue growth during 2012, and STI awarded fell from 97% (on average) in 2011 to 71.9% in 2012.

The Company had outstanding safety performance in 2012. Achievement of the STI safety targets for 2012 was at maximum levels, as the Company recorded significant year-over-year improvements in its Total Case Incident Rate and Lost Time Incident Rate of 26% and 23%.

The Company understands the desire for greater transparency of specific targets that are represented in the strategic objectives portion of the STI plan. Given the Company's size and position in the industry, it believes disclosing certain detailed financial or strategic performance targets would put it at a competitive disadvantage due to commercial sensitivities. However, in 2012 the Board did establish several specific strategic and operational objectives with the CEO that included metrics for new product introductions, supply chain process enhancements, market expansions in both geography and drilling types, and communications with employees, customers and shareholders. These objectives generally also pertained to other senior executives as they relate to their business, function or region. The Board was satisfied that the progress made on the majority of these strategic initiatives for the CEO was, on average, slightly under the targeted performance established for the year.

## Report Structure

The Remuneration Report (the “Report”) is presented in six sections, as follows.

Section		Description of content
1	<b>2012 remuneration overview</b>	<ul style="list-style-type: none"> <li>• Outlines the Company's remuneration practices and the key influences on the Company's remuneration arrangements during the year ended 31 December 2012.</li> <li>• Explains how executive remuneration is structured to support the Company's strategic objectives.</li> <li>• Sets out the Directors and senior executives who are covered by this Report.</li> <li>• Details the actual remuneration earned by the CEO and other senior executives during the year ended 31 December 2012.</li> </ul>
2	<b>Remuneration framework and strategy</b>	<ul style="list-style-type: none"> <li>• Sets out the Company's remuneration governance framework and explains how the Board and Remuneration &amp; Nominations Committee make remuneration decisions, including the use of external remuneration consultants.</li> <li>• Outlines the Company's remuneration strategy.</li> </ul>
3	<b>Components of executive remuneration</b>	<ul style="list-style-type: none"> <li>• Provides a breakdown of the various components of executive remuneration.</li> <li>• Details the components of executive remuneration that are fixed and therefore not “at-risk”.</li> <li>• Outlines the key features of the short-term incentive plan that applies to the Company's executives.</li> <li>• Outlines the key features of the long-term incentive plan and option plan that apply to the Company's executives.</li> </ul>
4	<b>Performance and risk alignment</b>	<ul style="list-style-type: none"> <li>• Explains how executive remuneration is aligned with performance and outlines short-term and long-term performance indicators and outcomes.</li> <li>• Explains how executive remuneration is structured to encourage behaviour that supports long-term financial soundness and the Company's risk management framework.</li> </ul>
5	<b>Executive remuneration in detail</b>	<ul style="list-style-type: none"> <li>• Sets out the total remuneration provided to executives (calculated pursuant to the accounting standards) during the years ended 31 December 2012 and 2011.</li> <li>• Provides details of the Rights granted to executives during the year ended 31 December 2012 under the long-term incentive plan.</li> <li>• Summarises the key terms of executive service contracts (including termination entitlements).</li> </ul>
6	<b>Non-executive Director arrangements</b>	<ul style="list-style-type: none"> <li>• Explains the non-executive Directors' remuneration structure including the basis on which non-executive Director remuneration is set and the components.</li> <li>• Outlines key features of the non-executive Director Share Acquisition Plan.</li> <li>• Sets out the non-executive Directors' remuneration during the years ended 31 December 2012 and 2011.</li> </ul>

## 1. 2012 REMUNERATION OVERVIEW

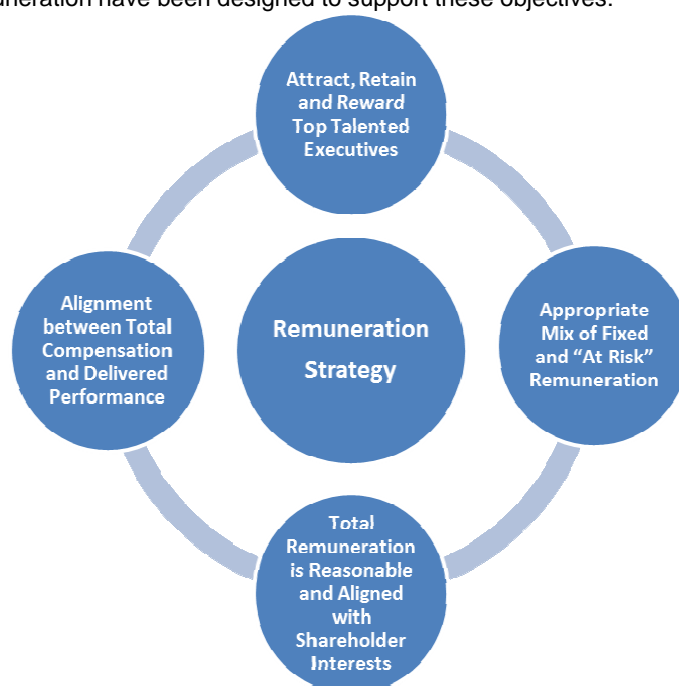
This section provides:

- an overview of the Company's executive remuneration strategy and linkages between the strategy and the design of the components of executive remuneration;
- details of the Directors and senior executives covered by this Report; and
- details of the actual remuneration outcomes for senior executives.

At the Company's annual general meeting on 11 May 2010, shareholders approved a 10 for 1 share consolidation. Trading in the consolidated shares commenced 13 May 2010. Where relevant, amounts have been restated in this Report using consolidated share amounts.

### 1.1. EXECUTIVE REMUNERATION STRATEGY

The diagram below illustrates the significant objectives of the Company's executive remuneration strategy and how the components of overall remuneration have been designed to support these objectives:



Attract, Retain and Reward Top Talented Executives	Alignment between Total Compensation and Delivered Performance	Appropriate Mix of Fixed and 'At Risk' Remuneration	Total Remuneration is reasonable and aligned with Shareholder Interests
<ul style="list-style-type: none"> <li>• Remuneration levels are competitive with similar roles in markets in which the Company competes for talent.</li> <li>• Incentive-based compensation provides for upside potential with superior performance.</li> <li>• Long-term incentive compensation provides for a meaningful retention.</li> </ul>	<ul style="list-style-type: none"> <li>• Incentive-based compensation is designed to reward executives for delivered performance against important Company financial and strategic objectives.</li> <li>• Incentive plans utilise an appropriate mix of challenging performance measures designed to only deliver value to executives if target performance is achieved over both the short and long terms.</li> </ul>	<ul style="list-style-type: none"> <li>• There is a significant amount of total executive remuneration which is at risk and dependent upon achieving challenging performance metrics.</li> <li>• Fixed remuneration is appropriately market competitive and consistently higher performing executives are rewarded through higher base compensation.</li> </ul>	<ul style="list-style-type: none"> <li>• The Remuneration Committee regularly performs executive compensation benchmarking utilising independent compensation consultants.</li> <li>• The long-term incentive component of remuneration is primarily delivered through equity share rights linked to the Company's ordinary shares.</li> <li>• Executives and Directors cannot hedge equity share rights that are unvested or subject to restrictions.</li> </ul>

## 1.2. DIRECTORS AND SENIOR EXECUTIVES

This Report sets out the remuneration arrangements in place for the key management personnel (“KMP”) of the Company for the purposes of the Corporations Act and the Accounting Standards, being those persons who have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including the non-executive Directors. The KMP include the six highest remunerated executives of the Company for the year ended 31 December 2012 and are listed in Table 1.2 below:

Table 1.2: Directors and senior executives who were KMP during the year ended 31 December 2012

Non-executive Directors	Position
David McLemore <sup>1</sup>	Chairman, Non-executive Director and Interim Chief Executive Officer
Bruce Brook	Non-executive Director
Roger Brown	Non-executive Director
Roy Franklin	Non-executive Director
Tanya Fratto	Non-executive Director
Barbara Jeremiah	Non-executive Director
Peter St. George	Non-executive Director
Senior executives	Position
Craig Kipp	Chief Executive Officer, Executive Director (terminated employment effective 5 October 2012)
Joe Ragan III	Chief Financial Officer
Fabrizio Rasetti	Senior Vice President, General Counsel and Secretary
Brad Baker	Senior Vice President, Human Resources
Michael Birch <sup>2</sup>	Vice President, Global Drilling Services
Alan Sides	Vice President, Global Products

(1) Mr McLemore has served as Interim CEO since 5 October 2012, during which time his responsibilities as Chairman have been assumed by Ms. Jeremiah and he has served as an executive Director.

(2) Mr Birch’s employment terminated on 31 January 2013.

The remuneration policy and programs set out in this Report apply to all KMP and to other members of the Company’s senior management who are not KMP.

## 1.3. REMUNERATION OUTCOMES

### Actual remuneration

Details of CEO and other senior executive remuneration for the year ended 31 December 2012, prepared in accordance with statutory obligations and accounting standards, are contained in Table 5.1 of this Report. The remuneration calculations in Table 5.1 are based on the Accounting Standards principle of “accrual accounting” and, consequently do not necessarily reflect the amount of compensation an executive actually realised in a particular year. To supplement the required disclosure we have included the additional table 1.3 below which shows the actual compensation realised by the senior executives<sup>1</sup> in the years shown. It illustrates how the Company’s remuneration strategy for senior executives translates into practice. It is important to note that the STI and LTI amounts are amounts earned on performance during the prior plan year(s) and vested and/or paid in the current year. 2011 was a year of record financial performance for the Company in revenues and earnings.

Table 1.3: Actual remuneration received by senior executives during the year ended 31 December 2012

	Base salary US\$	STI (cash) <sup>1</sup> US\$	LTI (equity) <sup>2</sup> US\$	LTI (cash) <sup>2</sup> US\$	Other <sup>3</sup> US\$	Total US\$
Craig Kipp	769,231	950,000	977,829	746,300	229,190	3,672,550
Joe Ragan III	450,154	305,844	347,344	275,000	40,480	1,418,822
Fabrizio Rasetti	412,308	209,200	256,924	225,000	39,447	1,142,879
Brad Baker	322,269	157,500	254,473	225,000	40,120	999,362
Michael Birch	465,500	215,898	258,163	225,000	36,956	1,201,517
Alan Sides	350,462	161,330	19,752	-	35,800	567,344

- (1) Represents the cash paid in respect of the executive's STI award earned for the prior year's performance. For further details of the STI Plan, see section 3.3 of this Report.
- (2) Represents the value of share rights and cash rights vested during the year (based on the A\$4.13 market value of shares at the vesting date) and dividends received on share rights granted prior to 1 January 2012. Share rights granted during the year ended 31 December 2012, and share rights and cash rights granted under the Company's LTI Plan and options granted under the Company's Option Plans during other grant years that are still in progress do not appear in this table, as they do not vest until the conclusion of the performance period and/or continued service requirement. For further details of the LTI Plan and Option Plans, see section 3.4 of this Report.
- (3) Represents benefits such as special one-time bonuses (if any), US 401(k) retirement plan Company matching and/or profit sharing contributions, relocation benefits, car allowance, tax preparation service reimbursement, and severance, if applicable. For Mr Kipp, this amount reflects severance payments received in 2012 from the date of his termination on 3 October 2012 and payment of his accrued and unused vacation in 2012

## 2. REMUNERATION FRAMEWORK AND STRATEGY

This section outlines the processes, principles and strategy that underpin the remuneration arrangements for senior executives.

### 2.1. HOW REMUNERATION DECISIONS ARE MADE

#### Board responsibility

The Board is responsible for the Company's remuneration arrangements and ensuring that they are equitable and aligned with the long-term interests of the Company and its shareholders. In performing this function and making decisions about executive remuneration, the Board is fully informed and acts independently of management. To assist in making decisions relating to remuneration, the Board has established a Remuneration & Nominations Committee.

#### Remuneration & Nominations Committee

The Remuneration & Nominations Committee ("Remuneration Committee") has been established to assist the Board with remuneration issues and is responsible for ensuring that the Company compensates appropriately and consistently with market practices. It also seeks to ensure that the Company's remuneration programs and strategies will attract and retain high-calibre Directors, executives and employees and will motivate them to maximise the Company's long-term business, create value for shareholders and support the Company's goals and values.

The Remuneration Committee's responsibilities include:

- developing and reviewing remuneration plans, including annual bonus plans and long-term incentive plans, including equity-based incentive plans;
- developing performance objectives for the CEO and his direct reports and reviewing performance against those objectives;
- overseeing strategies for recruitment, retention and succession planning for Directors and key executive positions; and
- reviewing the composition of the Board and monitoring the performance of the Board and the Directors.

The charter of the Remuneration Committee is set out in full on the Company's website at [www.boartlongyear.com](http://www.boartlongyear.com).

The CEO, the Senior Vice President for Human Resources and other members of senior management attend meetings of the Remuneration Committee, as appropriate, to provide information necessary for the Remuneration Committee to discharge its duties. Individual executives do not attend or participate in discussions where recommendations regarding their own circumstances are determined.

#### Use of remuneration consultants

Where appropriate, the Board seeks and considers advice from independent remuneration consultants. Remuneration consultants are engaged by, and report directly to, the Remuneration Committee and support the Committee in assessing market practice and movements to ensure that base salary and targeted short-term and long-term compensation are in line with comparable roles. When remuneration consultants are engaged, the Committee establishes with the consultants the appropriate level of independence from the Company's management that is required depending upon the circumstances of the assignment or advice being sought. Thus the Committee may determine that complete independence from management is required or that the consultants may be directed to work with Company management to obtain relevant information or input in order to formulate advice or recommendations to the Committee.

In 2012, the Committee changed its remuneration consultant in favour of a consultant with which the Company has no other business relationships. Although the Committee was very comfortable with the independence of the advice historically received from Mercer Consulting, Mercer's performance of other important human resources related services

for the Company led the Committee to strengthen its remuneration governance and select a new independent executive remuneration consultant. The Committee researched and interviewed several potential consultants and ultimately selected Frederic W. Cook & Co., Inc. In making its selection, the Committee considered that Frederic W. Cook consults on executive compensation as its sole business and therefore is independent of other potential business considerations that could possibly compromise the consultant's objectivity; has been successfully performing this work since 1973; and has extensive experience with clients within the relevant mining and natural resources industries.

The Committee also established a formal Protocol that summarises the policy and procedures that the Company has adopted to govern the relationship between the independent remuneration consultant, the Committee and management. This Protocol was developed in compliance with the obligations under Part 2D.8 of the *Corporations Act* and ensures that the remuneration consultant remains free from any undue influence by any member of the KMP to whom the recommendations relate. All consultant remuneration recommendations are provided directly to the Committee and are accompanied by an undue influence declaration from the consultant.

The amount paid to remuneration consultants during 2012 was \$46,361.

The table below sets out details of the remuneration consultants engaged and a summary of the services provided during the year ended 31 December 2012.

Table 2.1: Remuneration consultant arrangements

Remuneration consultant	Nature of services provided
<b>Frederic W. Cook &amp; Co., Inc.</b>	The Committee engaged Frederic W. Cook & Co., Inc. to review the competitiveness of Boart Longyear's executive remuneration program with a focus on competitive pay levels. As part of this analysis a peer group was selected to provide a competitive frame of reference from which to assess the market compensation levels for the CEO and other executives named in the Remuneration Report.
<b>Freehills</b>	Provided regular independent advice and counsel on various legal and governance standards related to executive remuneration.
<b>Ashurst (formerly Blake Dawson)</b>	Provided regular independent advice and counsel on various legal and governance standards related to executive remuneration.

## 2.2. REMUNERATION POLICY AND STRATEGY

The Company's remuneration programme has been designed to ensure that the structure, mix of fixed and "at-risk" remuneration and quantum of senior executive remuneration all meet the Company's specific business needs and objectives and are consistent with good market practice.

Accordingly, the Company's senior executive remuneration programme has been structured so that it:

- is reasonable;
- provides a competitive compensation program to retain, attract, motivate and reward key employees;
- achieves clear alignment between total remuneration and delivered business and personal performance over the short and long term; and
- is an appropriately balanced mix of fixed and "at-risk" remuneration.

The Company and the Remuneration Committee regularly review all elements of the remuneration programme to ensure that it remains appropriate to the business strategy, is competitive and is consistent with contemporary market practice.

The diagram below illustrates three primary components of the executives' total compensation opportunity and how the components are structured to achieve the remuneration strategy and align with shareholder interests:

Fixed Remuneration	Short-term Incentive (Corporate Bonus Plan)	Long-term Incentive
<ul style="list-style-type: none"> <li>Provides a predictable base level of compensation commensurate with the executive's scope of responsibilities, leadership skills, values, performance and contribution to the Company.</li> <li>Generally targeted to be near the median of the competitive talent market using external benchmarking data. Since the majority of the Company's executives (and all of the KMP) are located in the US, the competitive talent market is determined to be the US market.</li> <li>Variability around the median is based on the experience, performance, skills, position, business unit size and/or complexity and unique market considerations where necessary.</li> </ul>	<ul style="list-style-type: none"> <li>This component of compensation is "at-risk" and earned only if challenging performance metrics are achieved.</li> <li>Key performance metrics include operating margin, safety performance, revenue growth and individual strategic goals.</li> <li>The plan is designed to weight performance on operating margins, safety and revenue growth to overall Company performance in order to promote collaboration and to align with shareholder interests.</li> <li>Individual strategic goals can include financial and/or strategic targets for a business unit or function. Examples can include business unit growth, cost control goals, cash flow generation, geographic expansion, productivity programs, etc.</li> </ul>	<ul style="list-style-type: none"> <li>This component of compensation is "at-risk" and earned only if challenging performance metrics are achieved and/or continued service requirements are met over a three-year performance period.</li> <li>The Board has determined to use three-year average return on equity ("ROE") as the key measure for performance-based long-term incentive awards.</li> <li>The three-year average ROE targets include a minimum threshold performance, below which no value is achieved. The range of performance payouts was established based on an historical return analysis of the Company as well as against stated analyst and shareholder expectations.</li> <li>ROE provides a strong link to shareholders as it is a measure of the profitability of the equity employed in the business. It also provides a basis to evaluate the Company's performance relative to other companies and can provide a direct comparison with alternative investments available to shareholders.</li> </ul>

### 3. COMPONENTS OF EXECUTIVE REMUNERATION

#### 3.1. REMUNERATION MIX

Total remuneration for the CEO and senior executives is made up of fixed remuneration (consisting primarily of base salary and superannuation contributions (or the foreign equivalent such as the United States' 401(k)) payments) and variable "at-risk" remuneration. The variable remuneration has two "at-risk" components:

- STI – being an annual bonus granted under the Company's Corporate Bonus Plan; and
- LTI – being equity or cash grants tied to vesting conditions, such as continued employment and performance hurdles.

The relevant proportions of fixed to "at-risk" components for senior executive remuneration during 2012 were:

Table 3.1: Remuneration mix

	Fixed Remuneration	"At-risk" remuneration	
		STI <sup>2</sup>	LTI <sup>3</sup>
CEO	17%	21%	62%
KMPs (Excl. CEO) <sup>1</sup>	40% - 44%	19% - 26%	33% - 39%

(1) Percentages vary between individuals. This is a range for the group.

(2) Assuming performance metrics are achieved such that 100% of target bonus is earned.

(3) Represents fair value at date of grant, assuming 100% performance and vesting requirements are achieved.



## 3.2. FIXED REMUNERATION

The fixed component of executive remuneration consists primarily of base salary. Senior executives also receive other benefits, such as a vehicle allowance. In addition, the Company contributes to retirement programs, such as Australia's compulsory superannuation scheme or the United States' 401(k) plans.

Base salaries are reviewed annually by the Remuneration Committee (or, for the CEO, by the Board) and may be adjusted as appropriate to maintain market competitiveness and/or based on merit in accordance with the CEO's recommendation (for senior executives other than the CEO).

## 3.3. SHORT-TERM INCENTIVE

Table 3.3: Summary of STI program

<b>What is the STI program?</b>	<p>The Corporate Bonus Plan ("CBP") provides certain employees with the potential to receive an annual bonus if they satisfy specific annual objectives and targets that are pre-determined by the Board.</p> <p>Potential incentives available to be earned under the CBP range between 10% and 200% of an employee's base salary depending on the employee's role and actual performance achieved. The actual bonus that an employee will receive under the CBP (if any) will vary depending on the Company's and the individual's performance against the relevant objectives and targets, as detailed more fully below.</p>
<b>Who participates in the STI program?</b>	<p>Approximately 200 senior employees participated in the CBP in 2012.</p>
<b>Why does the Board consider the STI program an appropriate incentive?</b>	<p>The CBP and the performance conditions set under the CBP have been designed to:</p> <ul style="list-style-type: none"> <li>• focus eligible employees on maximising Company performance in key financial, safety and operational targets;</li> <li>• align individual efforts with Company and shareholder interests; and</li> <li>• reward for superior individual and Company performance.</li> </ul> <p>By putting a significant proportion of senior executive remuneration "at risk" under the CBP against challenging targets, the CBP aligns executive interests with the Company's financial and safety performance and with the operational and/or functional objectives of their relevant business unit or function.</p>
<b>What are the performance conditions?</b>	<p>There are four key performance components to the CBP. Each component has a threshold performance below which no bonus is earned for that component; a target level of performance where 100% of the bonus can be earned; and a maximum stretch level of performance whereby superior results can earn up to 150% of that component of the bonus.</p> <p>The four performance components and their relative weightings are:</p> <ol style="list-style-type: none"> <li>(1) <u>Operating margin</u> - 60% of an employee's CBP opportunity is linked to the Company's overall financial operating margin performance. For purposes of calculating operating margin, the operating income component is adjusted to eliminate the impact of items such as restructuring costs, amortization of intangibles, gain/loss on disposal of assets, foreign exchange transactions and other immaterial non-operating related expenses.</li> <li>(2) <u>Strategic objectives</u> - 30% of an employee's CBP opportunity is dependent upon performance against strategic objectives relevant to the employee's business unit or functional responsibility. Examples of strategic objectives may include business unit or functional cost targets, geographic or targeted market segment growth, new product introductions, specific project or initiative progress, etc.</li> <li>(3) <u>Safety</u> - 10% of an employee's CBP opportunity is dependent upon the Company's overall safety performance.</li> <li>(4) <u>Revenue growth</u> - a multiplier based on year-over-year increases in revenue is applied to any amounts earned for meeting or exceeding the Operating Margin, Strategic</li> </ol>

	<p>Objectives and Safety performance goals, thereby capturing overall business growth as a key objective.</p> <p>The Company's annual financial target for the purposes of the CBP is set by the Remuneration Committee and in 2012 both threshold and stretch targets were set to further incentivise executives. The Remuneration Committee's philosophy in setting financial targets is to establish threshold targets that represent the desired minimum outcome for each goal (below which no bonus is payable) and stretch targets that can only be met by the achievement of excellent outcomes for each goal.</p> <p>For 2012, the Remuneration Committee specifically approved the following performance payout matrices for corporate Operating Margin and Revenue Multipliers:</p> <table> <tr> <th>Op. margin performance</th><th>Payout (% of target for financial component)</th></tr> <tr><td>20.0%</td><td>150%</td></tr> <tr><td>17.5%</td><td>120%</td></tr> <tr><td>15.0%</td><td>90%</td></tr> <tr><td>12.5%</td><td>70%</td></tr> <tr><td>10.0%</td><td>50%</td></tr> <tr><td>7.5%</td><td>40%</td></tr> <tr><td>5.0%</td><td>30%</td></tr> </table> <table> <tr> <th>Revenue growth</th><th>Multiplier</th></tr> <tr><td>50%</td><td>1.33x</td></tr> <tr><td>40%</td><td>1.27x</td></tr> <tr><td>30%</td><td>1.20x</td></tr> <tr><td>20%</td><td>1.13x</td></tr> <tr><td>10%</td><td>1.07x</td></tr> <tr><td>0%</td><td>1.00x</td></tr> </table> <p>While these metrics are specific to 2012 and will be reviewed annually, they have been established with the intent of remaining consistent through the business cycle and are unchanged from 2011. The Remuneration Committee also reviews and approves the non-financial targets for senior executives (including the CEO).</p> <p>The Board maintains total discretion to reduce or eliminate a bonus entirely for any reason, including as a means of a clawback of a prior year's bonus should it be determined that a material misstatement of financial performance had occurred. Certain conditions may apply to an employee's CBP opportunity that reduces (but not increases) the bonus that they receive under the CBP. For example, if an employee fails to adhere to corporate leadership values, such as legal compliance, this may reduce total bonus payable to them under the CBP by up to 100%.</p>	Op. margin performance	Payout (% of target for financial component)	20.0%	150%	17.5%	120%	15.0%	90%	12.5%	70%	10.0%	50%	7.5%	40%	5.0%	30%	Revenue growth	Multiplier	50%	1.33x	40%	1.27x	30%	1.20x	20%	1.13x	10%	1.07x	0%	1.00x
Op. margin performance	Payout (% of target for financial component)																														
20.0%	150%																														
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Revenue growth	Multiplier																														
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30%	1.20x																														
20%	1.13x																														
10%	1.07x																														
0%	1.00x																														
<b>How are the performance conditions measured?</b>	<p>Performance is assessed against the relevant targets annually. The final determination of the Company's financial performance is determined after reviewing the Company's audited financial results for the relevant period. Financial targets are assessed quantitatively against the pre-determined targets. Where possible, non-financial targets are also assessed quantitatively and otherwise they are assessed by periodic qualitative performance appraisal.</p>																														
<b>Sample calculation</b>	<p>Following is an example of how a bonus would be calculated assuming the following:</p> <ul style="list-style-type: none"> <li>Employee earns \$150,000 with a 40% target bonus amount</li> <li>Corporate Operating Margin of 12.5%</li> <li>Safety and strategic objectives achievement each at target performance</li> <li>Revenue growth of 10%</li> </ul> <p>Corporate Operating Margin of 12.5% = 70% component payout (per table above)  Safety performance at target = 100% component payout  Strategic Objectives at target = 100% component payout  Revenue Growth of 10% = Revenue Multiplier of 1.07 (per table above)</p> <p>Calculation:</p> <p>Step 1: Determine component subtotal</p> <table> <tr> <td>Operating Margin = (70% x 60% weighting)</td> <td>= 42%</td> </tr> <tr> <td>+ Safety performance = (100% x 10% weighting)</td> <td>= 10%</td> </tr> <tr> <td>+ Strategic objectives = (100% x 30% weighting)</td> <td>= 30%</td> </tr> <tr> <td>= Subtotal achievement</td> <td>= 82%</td> </tr> </table>	Operating Margin = (70% x 60% weighting)	= 42%	+ Safety performance = (100% x 10% weighting)	= 10%	+ Strategic objectives = (100% x 30% weighting)	= 30%	= Subtotal achievement	= 82%																						
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+ Strategic objectives = (100% x 30% weighting)	= 30%																														
= Subtotal achievement	= 82%																														

	<p>Step 2: Multiply Subtotal by achieved Revenue Multiplier to obtain Total Bonus Percentage  <math>82\% \times 1.07 = 88\%</math></p> <p>Step 3: Calculate Bonus  <math>\\$150,000 \times 40\% \text{ Target Bonus} \times 88\% \text{ Bonus achievement} = \\$52,800 \text{ Bonus}</math></p>
<b>In what form is the STI delivered?</b>	All bonuses awarded under the CBP are delivered as a cash bonus.
<b>What STI awards did senior executives earn in 2012?</b>	Bonuses under the CBP during the year ended 31 December 2012 are set out in Table 4.1.3 in section 4.1 of this Report. The bonuses will be paid in or after March 2013 after Board approval.

## 3.4. LONG-TERM INCENTIVES

### Long-term Incentive Plan ("LTIP")

Table 3.4: Summary of the LTIP

<b>What is the purpose of the LTIP?</b>	<p>The Company established the LTIP to:</p> <ul style="list-style-type: none"> <li>align senior executive reward with shareholder value;</li> <li>assist in retaining key executives;</li> <li>encourage superior performance on a sustained basis; and</li> <li>provide executives with an opportunity to share in the growth and value of the Company by tying the LTI component of senior executive remuneration to the achievement of performance conditions and time-based service conditions.</li> </ul>
<b>Who participates in the LTIP?</b>	The executives eligible to participate in the LTIP are senior divisional, regional and corporate executives. The target value of annual LTIP grants varies depending on the participant's position, skills and contributions to the Company. The target amounts are generally based on market averages for comparable roles at similarly-sized companies. The Company made grants to approximately 105 participants during the year ended 31 December 2012.
<b>What proportion of total remuneration does the LTIP program represent?</b>	Senior executives are offered grants that represent approximately 31% - 34% (49% for the CEO) of their total remuneration (on an annualised basis). However, participating senior executives derive no actual value from their LTI grants under the LTIP unless the performance hurdles and/or service conditions are satisfied.
<b>How is reward delivered under the LTIP?</b>	<p>The incentive provided under the LTIP is a grant of rights ("Rights"). Rights can be granted in the form of shares ("Share Rights"), cash ("Cash Rights") or a combination of the two. A Share Right is an entitlement to receive a fully-paid ordinary share in the Company and a Cash Right is an entitlement to receive a cash bonus up to a set maximum. Although the Board may elect to grant Cash Rights for any reason, they have typically been used to supplement Share Rights in order to appropriately limit share dilution when the stock price was low at the time of the award. The combination of both Share and Cash Rights utilised a more appropriate quantum of Share Rights to deliver the desired grant date award values.</p> <p>Rights are granted on terms and conditions determined by the Board, including vesting conditions linked to service and performance over a specified period (usually three years).</p>
<b>Do participants pay for the Share Rights?</b>	Rights are offered at no cost to the senior executives.

<b>What rights are attached to the Share Rights?</b>	<p>Share Rights do not carry voting rights; however, shares allocated upon vesting of Share Rights will carry the same rights as other ordinary shares.</p> <p>The Company may acquire shares underlying the Share Rights that it has granted under the LTIP, and the price paid by the Company will be the prevailing market price of the shares at the time of acquisition. The acquired shares will be held in trust, and for Share Rights granted beginning 2012, all dividends paid on unvested Share Rights will be held in trust and payable when the participant satisfies the vesting conditions. For Share Rights granted prior to 2012, even though the Share Rights have not yet vested, the participant will receive dividends attributable to the shares that underlie their Share Rights from the time those underlying shares are acquired by the trustee.</p> <p>Senior executives are not entitled to trade or hedge their unvested Rights.</p>												
<b>What are the vesting conditions?</b>	<p>For Rights granted during the years ending since 31 December 2010, the vesting conditions were as follows:</p> <table><tr><th>Tranche</th><th>Percentage of grant</th><th>Vesting condition</th><th>Partial vesting</th></tr><tr><td>Performance Share Rights or Performance Cash Rights</td><td>100% for the CEO  50% for executives other than the CEO</td><td>Achievement of average ROE targets over a three-year period set by the Board. The targets include a threshold average ROE target and a stretch average ROE target for the three-year performance period.  plus  Continuation of employment during the three-year performance period.</td><td>Vesting occurs on a pro-rata basis if the minimum three-year average ROE threshold is surpassed.  At the minimum three-year average ROE threshold, 50% of Performance Share and/or Performance Cash Rights will vest.  Full vesting occurs only if the Company's three-year average ROE meets or exceeds the stretch target for the performance period.</td></tr><tr><td>Retention Share Rights or Retention Cash Rights</td><td>0% for the CEO  50% for executives other than the CEO</td><td>Continuation of employment during the three-year continued service period.</td><td>No</td></tr></table>	Tranche	Percentage of grant	Vesting condition	Partial vesting	Performance Share Rights or Performance Cash Rights	100% for the CEO  50% for executives other than the CEO	Achievement of average ROE targets over a three-year period set by the Board. The targets include a threshold average ROE target and a stretch average ROE target for the three-year performance period.  plus  Continuation of employment during the three-year performance period.	Vesting occurs on a pro-rata basis if the minimum three-year average ROE threshold is surpassed.  At the minimum three-year average ROE threshold, 50% of Performance Share and/or Performance Cash Rights will vest.  Full vesting occurs only if the Company's three-year average ROE meets or exceeds the stretch target for the performance period.	Retention Share Rights or Retention Cash Rights	0% for the CEO  50% for executives other than the CEO	Continuation of employment during the three-year continued service period.	No
Tranche	Percentage of grant	Vesting condition	Partial vesting										
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Retention Share Rights or Retention Cash Rights	0% for the CEO  50% for executives other than the CEO	Continuation of employment during the three-year continued service period.	No										

<b>How is the Return on Equity ("ROE") hurdle measured?</b>	<p>Vesting of the Performance Share Rights or Performance Cash Rights that were granted during the years ending since 31 December 2010 will be determined by the Company's performance against average ROE targets for the three-year performance period. ROE is defined as annual net profit after tax ("NPAT") attributable to equity shareholders divided by average total equity.</p> <p>The following table shows the three-year average ROE threshold, target and maximum performance requirements:</p> <table><tr><td></td><td><b>3-year average ROE performance</b></td><td><b>% of award earned</b></td></tr><tr><td>Maximum Award</td><td>Greater than 13.0%</td><td>150%</td></tr><tr><td></td><td>Greater than 11.0% and less than or equal to 13.0%</td><td>125%</td></tr><tr><td>Target Award</td><td>Greater than 9.0% and less than or equal to 11.0%</td><td>100%</td></tr><tr><td></td><td>Greater than 7.0% and less than or equal to 9.0%</td><td>75%</td></tr><tr><td>Threshold Award</td><td>Greater than or equal to 6.0% and less than or equal to 7.0%</td><td>50%</td></tr><tr><td>Less than Threshold</td><td>Less than 6.0%</td><td>0%</td></tr></table> <p>The number of Performance Share Rights or Performance Cash Rights granted in 2010 that are earned pursuant to the three-year average ROE performance metric above will vest in 2013 following the completion of the continuous service requirement.</p> <p>For Performance Share Rights or Performance Cash Rights granted beginning 2013, the three-year average ROE threshold, target and maximum performance requirements are as follows:</p> <table><tr><td></td><td><b>3-year average ROE performance</b></td><td><b>% of award earned</b></td></tr><tr><td>Maximum Award</td><td>Greater than or equal to 13.0%</td><td>150%</td></tr><tr><td>Target Award</td><td>Equal to 9.5%</td><td>100%</td></tr><tr><td>Threshold Award</td><td>Equal to 6.0%</td><td>50%</td></tr><tr><td>Less than Threshold</td><td>Less than 6.0%</td><td>0%</td></tr></table> <p>Actual amounts earned for three-year ROE performance falling between the threshold and target, or between the target and maximum, will be calculated on a linear basis.</p>		<b>3-year average ROE performance</b>	<b>% of award earned</b>	Maximum Award	Greater than 13.0%	150%		Greater than 11.0% and less than or equal to 13.0%	125%	Target Award	Greater than 9.0% and less than or equal to 11.0%	100%		Greater than 7.0% and less than or equal to 9.0%	75%	Threshold Award	Greater than or equal to 6.0% and less than or equal to 7.0%	50%	Less than Threshold	Less than 6.0%	0%		<b>3-year average ROE performance</b>	<b>% of award earned</b>	Maximum Award	Greater than or equal to 13.0%	150%	Target Award	Equal to 9.5%	100%	Threshold Award	Equal to 6.0%	50%	Less than Threshold	Less than 6.0%	0%
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<b>Why have the performance hurdles been chosen?</b>	<p>In 2010, the Board chose, based on independent consultation with Mercer Consulting, to move to an ROE performance hurdle for Performance Share Rights and Performance Cash Rights in place of the EPS hurdle used in previous years. ROE measures how effectively the Company is using the money shareholders have invested to generate profits. ROE is a reflection of multiple financial measures including net profitability of the Company and the efficient management of assets employed. The Board further believes a focus on this metric will lead to improved cash generation in order to internally fund its capital requirements and limit the need to seek debt funding for a business subject to a cyclical industry such as ours. Utilising a three-year average measure reduces the risk for short-term decision making and accommodates the inherent cycles within our industry and business. The ROE hurdle therefore provides a greater alignment</p>																																				

	between the long-term incentive provided to senior executives and their ability to influence the Company's performance.
<b>What if a senior executive ceases employment?</b>	<p>A senior executive's unvested Rights will generally lapse on the date that they cease employment, unless the Board determines otherwise. However, where a senior executive's employment ceases due to their death or total and permanent disability, all of their unvested Rights will vest. Also, unless the Board determines otherwise, where a senior executive's employment ceases by reason of "Special Circumstances" (which includes redundancy, retirement or other circumstances which are considered by the Board to be extraordinary):</p> <ul style="list-style-type: none"> <li>• where there is no performance condition attached to a Right (i.e. it is a Retention Share Right or Retention Cash Right), any applicable time-based condition will be waived and the number of Retention Share Rights and/ or Retention Cash Rights that vest will be pro-rated according to the extent of the retention period actually worked; and</li> <li>• where there is a performance condition attached to a Right (i.e. it is a Performance Share Right or Performance Cash Right), there will be no accelerated vesting of the Performance Rights and instead, the Performance Rights will remain "on foot" and be tested in the ordinary course and against the applicable performance condition. However, the number of Rights that vest will be pro-rated over the period of time actually worked during the continued service period.</li> </ul>
<b>What happens in the event of a change of control?</b>	In the event of a takeover or change of control of the Company, any unvested Rights may vest at the Board's discretion.
<b>What Rights were granted in 2012?</b>	Rights granted during the year ended 31 December 2012 are set out in Table 5.2 of this Report. The Rights were granted on 15 March 2011.

## Option Plans

In 2009, the Board approved the establishment of the 2009 Option Plan which authorised the granting of no more than 5,000,000 (later adjusted to 500,000 in light of the 10:1 consolidation of the Company's shares in 2010) options in total. The purpose of the Option Plan was to bolster executive retention during the economic downturn in 2009 by providing a one-off grant of options to senior executives (including the CEO).

No options were granted to senior executives during 2012.

Options with an exercise price set at a premium of 22.5% of the prevailing market price for the Company's shares on the date of the grant, were granted to the senior executives employed on 18 June 2009 and vested in full and became exercisable on 18 June 2012. Unexercised options will expire on 18 June 2014. On 15 March 2010, 25,000 options were granted to a new senior executive at an exercise price of A\$3.20, and those options will vest in full and become exercisable on 15 March 2013 and will expire on 15 March 2015.

In 2008, the Board approved the establishment of the 2008 Option Plan upon Mr Kipp's appointment to the position of CEO in order to award Mr Kipp a total of 2,500,000 (later adjusted to 250,000 in light of the 10:1 consolidation of the Company's shares in 2010) shares under two separate grants, both of which vested upon his termination of employment and remain exercisable until 5 April 2013. No other senior executive received a grant under the 2008 Option Plan.

Details of options that have been granted to senior executives under both option plans can be found in Table 4.1.7.

## 4. PERFORMANCE AND RISK ALIGNMENT

### 4.1. PERFORMANCE ALIGNMENT

While senior executive remuneration is structured to attract and retain talented employees, the amount of remuneration received by an individual is dependent on the achievement of superior performance and generating value for shareholders.

Table 4.1.1 below summarises the Company's performance over the past five years in respect of the financial and non-financial indicators identified by the Board to assess the Company's performance and future prospects.

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Table 4.1.1: Year-on-year performance

Financial year	Share performance			Earnings performance				
	Closing share price A\$	Dividend p/share US\$ <sup>1</sup>	EPS % <sup>2</sup>	Revenue US\$ millions	EBITDA US\$ millions	NPAT US\$ millions	ROE <sup>3</sup>	Operating margin <sup>4</sup>
2012	1.88	0.12	7.7%	2,012	254	68	6.0%	10.7%
2011	2.78	0.08	13.0%	2,020	356	160	14.6%	13.0%
2010	4.56	0.02	4.0%	1,476	222	85	8.5%	9.0%
2009	3.52	-	(2.0%)	978	111	(15)	(2.0%)	2.0%
2008	1.99	0.38	52.0%	1,838	356	157	18.0%	15.0%

- (1) Dividends per share are shown based upon the cash amounts paid in each year.
- (2) Calculated as basic EPS divided by closing share price. EPS is adjusted for 10:1 share consolidation completed in May 2010.
- (3) 2008 ROE is calculated on a pro-forma basis allowing for the \$700,000,000 equity raising completed in November 2009.
- (4) Excludes other income and other expenses.

The Board believes incentivising and rewarding management for sustaining higher levels of operating margin (via cash bonuses under the CBP) and ROE (via performance-based LTIP rights) will more consistently yield desirable shareholder returns over time. The Board will continue to monitor this relationship and make further modifications as it deems appropriate.

## Short-term performance indicators and outcomes

As discussed above, the CBP rewards senior executives and other participants for their achievement of specific key performance indicators for the Company as well as for the achievement of performance goals specific to the business unit or function for which they are responsible during a financial year.

Table 4.1.2: Average proportion of STI awarded, 2008-2012

	2008	2009	2010	2011	2012
% of target STI awarded <sup>1</sup>	84%	99%	88%	97%	72%

- (1) Weighted average for senior executives.

Table 4.1.3: STI earned during the year ended 31 December 2012

	STI earned US\$	Target STI <sup>1</sup> US\$	STI earned as % of target STI	% of target STI forfeited	STI as % of maximum STI <sup>2</sup>
Craig Kipp <sup>3</sup>	644,088	1,000,000	64%	36%	32%
Joe Ragan III	233,806	317,240	74%	26%	37%
Fabrizio Rasetti	178,152	208,000	86%	14%	43%
Brad Baker	140,974	162,225	87%	13%	43%
Michael Birch	169,183	234,325	72%	28%	36%
Alan Sides	143,031	176,800	81%	19%	40%

- (1) The target potential value of the 2012 STI awards for the CEO and senior executives (who receive STI awards wholly in cash) is the amount disclosed. A minimum level of performance must be achieved before any STI is awarded. Therefore, the minimum potential value of the STI for all participants in 2012 was nil.
- (2) The maximum potential award assuming superior performance against all CBP metrics is 200% of target STI.
- (3) Mr Kipp's STI earned was prorated to 5 October 2012.

## Long-term performance indicators and outcomes

LTI awards are provided through the LTIP to assist in retaining key executives, encourage superior performance on a sustained basis, and provide such executives with an opportunity to share in the growth and value of the Company.

Table 4.1.4 shows the actual ROE performance achieved during each of the three years applicable to the 2010 performance awards, as well as the actual three-year average ROE. Based on the actual performance over the period, and pursuant to the performance requirement outlined in Table 3.4, 100% of the award will be eligible to vest once the executive satisfies the continued service requirement, which in all cases will not occur prior to March 2013. The vesting dates for all outstanding awards are shown in Table 4.1.5 below.

Table 4.1.4: Cumulative performance for 2010 grants of performance-based LTIP awards

	<u>ROE Performance</u>
2010	8.5%
2011	14.6%
2012	6.0%
3-year Average	9.7%
% of Award Earned	100.0%

The vested Share Rights listed in Table 4.1.5 below include the Retention Share Rights and Performance Share Rights that were granted in 2009 and vested in 2012. The Performance Share Rights were subject to the performance period ended 31 December 2011 and achieved 100% of the target award amount (as detailed in last year's remuneration report). These earned Performance Rights remained unvested until the continuous service requirement was met in 2012.



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Table 4.1.5: Movement in Share Rights during the year ended 31 December 2012

Name	Grant date	Vesting date	LTIP shares (Total)	Number of Share Rights vested	Value of Share Rights vested US\$ <sup>1</sup>	Number of Share Rights forfeited	Value of Share Rights forfeited US\$ <sup>1</sup>	Number of Share Rights Outstanding
Craig Kipp	25-Mar-09	25-Mar-12	180,000	180,000	778,576	-	-	-
	1-Mar-10	5-Oct-12 <sup>2</sup>	54,820	47,475	80,193	7,345	12,407	-
	1-Mar-10	1-Mar-13 <sup>3</sup>	375,000	-	-	50,250	84,880	324,750
	15-Mar-11	15-Mar-14 <sup>3</sup>	455,580	-	-	218,405	368,920	237,175
	15-Mar-12	15-Mar-15 <sup>3</sup>	681,200	-	-	553,747	935,364	127,453
Joe Ragan III	25-Mar-09	25-Mar-12	75,000	75,000	324,407	-	-	-
	1-Mar-10	1-Mar-13	103,000	-	-	-	-	103,000
	15-Mar-11	15-Mar-14	80,000	-	-	-	-	80,000
	15-Mar-12	15-Mar-15	90,000	-	-	-	-	90,000
Brad Baker	25-Mar-09	25-Mar-12	55,000	55,000	237,898	-	-	-
	1-Mar-10	1-Mar-13	72,150	-	-	-	-	72,150
	15-Mar-11	15-Mar-14	60,000	-	-	-	-	60,000
	15-Mar-12	15-Mar-15	75,000	-	-	-	-	75,000
Michael Birch	25-Mar-09	25-Mar-12	55,000	55,000	237,898	-	-	-
	1-Mar-10	1-Mar-13	82,900	-	-	-	-	82,900
	15-Mar-11	15-Mar-14	80,000	-	-	-	-	80,000
	15-Mar-12	15-Mar-15	90,000	-	-	-	-	90,000
Fabrizio Rasetti	25-Mar-09	25-Mar-12	55,000	55,000	237,898	-	-	-
	1-Mar-10	1-Mar-13	82,578	-	-	-	-	82,578
	15-Mar-11	15-Mar-14	70,000	-	-	-	-	70,000
	15-Mar-12	15-Mar-15	90,000	-	-	-	-	90,000
Alan Sides	15-Mar-10	15-Mar-13	104,600	-	-	-	-	104,600
	15-Mar-11	15-Mar-14	60,000	-	-	-	-	60,000
	15-Mar-12	15-Mar-15	70,000	-	-	-	-	70,000

(1) Represents the value of share rights vested and forfeited during the year based on the market value of shares at the vesting date.

(2) The number of Share Rights that vested on 5 October 2012 represents a prorated amount of retention shares that vested pursuant to the terms of the LTI award agreement.

(3) As a result of Mr Kipp's termination of employment in 2012, and pursuant to the terms of the LTI award agreement, Mr Kipp's outstanding Share Rights were prorated to his date of termination. This resulted in the amount of Share Right forfeitures indicated above. The balance of his Performance Share Rights remains subject to the Performance Conditions and other vesting requirements of the award.

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Table 4.1.6: Movement in Cash Rights during the year ended 31 December 2012

Name	Grant date	Vesting date	Cash (total) US\$	Number of Cash Rights vested	Value of Cash Rights vested US\$	Number of Cash Rights forfeited	Value of Cash Rights forfeited US\$	Number of Cash Rights Outstanding
Craig Kipp	25-Mar-09	25-Mar-12	746,300 <sup>1</sup>	746,300	746,300	-	-	-
	1-Mar-10	1-Mar-13	450,000	-	-	60,300 <sup>2</sup>	60,300 <sup>2</sup>	389,700 <sup>2</sup>
Joe Ragan III	25-Mar-09	25-Mar-12	275,000	275,000	275,000	-	-	-
	1-Mar-10	1-Mar-13	100,000	-	-	-	-	100,000
Brad Baker	25-Mar-09	25-Mar-12	225,000	225,000	225,000	-	-	-
	1-Mar-10	1-Mar-13	80,000	-	-	-	-	80,000
Michael Birch	25-Mar-09	25-Mar-12	225,000	225,000	225,000	-	-	-
	1-Mar-10	1-Mar-13	80,000	-	-	-	-	80,000
Fabrizio Rasetti	25-Mar-09	25-Mar-12	225,000	225,000	225,000	-	-	-
	1-Mar-10	1-Mar-13	80,000	-	-	-	-	80,000
Alan Sides	15-Mar-10	15-Mar-13	80,000	-	-	-	-	80,000

- (1) This amount was revised in this 2012 report to correct a reporting error from the prior years. Mr Kipp's total number of Cash Rights granted on 25 March 2009 was 746,300 but had been previously reported as 550,000.
- (2) As a result of Mr Kipp's termination of employment in 2012, and pursuant to the terms of the LTI award agreement, Mr Kipp's outstanding Performance Cash Rights were prorated to 5 October 2012. The balance of his Performance Cash Rights remains subject to the Performance Conditions and other vesting requirements of the award.

Table 4.1.7: Movement in options during the year ended 31 December 2012

Name	Effective grant date	Vesting date	Options (total)	Number of options vested	Value of options vested US\$	Option price A\$	Number of Options Outstanding
Craig Kipp <sup>1</sup>	28-Apr-08	5-Oct-12	100,000	100,000	687,308	18.95	-
	28-Apr-08 <sup>2</sup>	5-Oct-12	150,000	150,000	2,175,000	1.55	-
	18-Jun-09	18-Jun-12	90,000	90,000	128,675	2.45	-
Joe Ragan III	18-Jun-09	18-Jun-12	37,500	37,500	53,615	2.45	-
Brad Baker	18-Jun-09	18-Jun-12	27,500	27,500	39,317	2.45	-
Michael Birch	18-Jun-09	18-Jun-12	27,500	27,500	39,317	2.45	-
Fabrizio Rasetti	18-Jun-09	18-Jun-12	27,500	27,500	39,317	2.45	-
Alan Sides	15-Mar-10	15-Mar-13	25,000	-	-	3.20	25,000

- (1) Pursuant to the terms of the agreements governing his option awards, Mr Kipp's outstanding options vested on 5 October 2012. The award agreements stipulated that should his termination occur after 18 months from the grant date of the award, the outstanding options would vest in full upon his date of termination.
- (2) The second grant of options Mr Kipp received in conjunction with his appointment as CEO was issued as of 1 January 2009. For purposes of compliance with Australian Accounting Standards, the effective grant date was determined to be 28 April 2008.

## **Adjustments made to existing Share Rights and options following share consolidation**

In light of the 10:1 share consolidation, all unvested Share Rights and options held by executives prior to the consolidation were adjusted by dividing the number of Share Rights and/or options held by 10. The exercise price applicable to the options was also adjusted by multiplying it by 10 so that the exercise price per option became A\$2.45 for options granted to all executives on 11 April 2009; A\$3.20 for options granted to Mr Sides on 15 March 2010; and A\$18.95 and A\$1.55 for options granted to the CEO on 28 April 2008 and 1 January 2009 respectively. As the adjustments were made purely to address the impact of the share consolidation, the adjustments did not affect the fair value of the adjusted Share Rights and options.

## **4.2. RISK ALIGNMENT**

### **Employee and Director trading in Company securities**

Under the Company's Securities Trading Policy, Directors and employees (including senior executives) are prohibited from entering into transactions that limit the economic risk of holding unvested Rights or options that have been received as part of their remuneration. The Company treats compliance with this policy as a serious issue and takes appropriate measures to ensure the policy is adhered to, including imposing appropriate sanctions where an employee is found to have breached the policy.

Further restrictions also apply to Directors and senior executives with respect to their dealing in the Company's shares and other securities under the Securities Trading Policy and further details of the policy are set out in the Corporate Governance Statement on page eight of this Annual Financial Report.

### **Executive Stock Ownership Guidelines**

The Board has determined to evaluate the design and implementation of an executive stock ownership guideline during 2013. The Board firmly supports equity ownership as an important instrument in creating strong alignment of executive and shareholder interests. The financial risk an executive assumes by taking a meaningful equity position in the Company creates mutual ownership between the executives and shareholders and provides a focus on long-term shareholder value creation. The Board further believes that establishing a share ownership guideline for executives helps to mitigate the potential for excessive risk-taking for short-term performance that may be contrary to achieving long-term value creation.

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## 5. EXECUTIVE REMUNERATION IN DETAIL

This section provides details of total remuneration and service contract terms for the CEO and other senior executives.

### 5.1. TOTAL REMUNERATION

Details of each senior executive's remuneration during the years ended 31 December 2012 and 2011 (calculated in accordance with applicable accounting standards) are set out in Table 5.1.

Table 5.1: Senior executive remuneration

	Cash-based compensation								Non-cash-based compensation				
	Short term benefits <sup>1</sup>			Post-employment benefits		Other long-term benefits		Termination Benefits <sup>2</sup>		Share-based compensation <sup>3</sup>			
	Cash salary US\$	Annual bonus <sup>4</sup> US\$	Other <sup>5</sup> US\$	Super-annuation benefits <sup>6</sup> US\$	Other <sup>7</sup> US\$	Retention Cash Rights US\$	Perform-ance Cash Rights US\$	Termination US\$	Other US\$	Options US\$	Rights US\$	Share-based %	Total US\$
Craig Kipp <sup>8</sup>													
2012	769,231	644,088	135,928	7,500	7,500	217,628	67,164	1,006,000	38,640	632,081	705,444	31.6%	4,231,204
2011	1,000,000	950,000	95,623	7,350	7,350	91,583	363,996	-	-	654,171	1,293,823	43.6%	4,463,896
Joe Ragan III													
2012	450,154	233,806	51,640	7,500	7,500	27,315	19,674	-	-	8,316	294,314	27.5%	1,100,219
2011	435,385	305,844	42,964	7,350	7,350	62,443	82,363	-	-	17,856	264,739	23.0%	1,226,295
Fabrizio Rasetti													
2012	412,308	178,152	44,689	7,500	7,500	22,046	15,933	-	-	6,098	245,084	26.7%	939,310
2011	393,942	209,200	35,664	7,350	7,350	50,787	66,871	-	-	13,094	222,111	23.4%	1,006,369
Brad Baker													
2012	322,269	140,974	42,738	7,500	7,500	22,046	15,933	-	-	6,098	209,709	27.9%	774,767
2011	311,365	157,500	34,711	7,350	7,350	50,787	66,871	-	-	13,094	193,295	24.5%	842,323
Michael Birch													
2012	465,500	169,183	44,253	7,500	7,500	22,046	15,933	-	-	6,098	247,504	25.7%	985,517
2011	449,692	215,898	31,283	7,350	7,350	50,787	66,871	-	-	13,094	247,144	23.9%	1,089,469
Alan Sides													
2012	350,462	143,031	40,552	7,500	7,500	12,811	7,336	-	-	17,921	272,847	33.8%	859,960
2011	335,385	161,330	32,102	7,350	7,350	13,321	22,494	-	-	17,921	177,305	25.2%	774,557

- (1) There were no non-monetary benefits provided.
- (2) Includes the 2012 accounting accrual representing the expensing of Mr Kipp's termination payments and the value of the waiver of his medical premiums for 12 months from the date of his termination on 3 October 2012. The amount in "Other" represents the payment for Mr Kipp's accrued and unused vacation for 2012.
- (3) In accordance with the requirements of the Australian Accounting Standards Board, remuneration includes a portion of the historical fair value of equity compensation recognised over the respective vesting period (i.e. Rights awarded under the LTIP and options awarded under the Option Plan(s)). The fair value of equity instruments is determined as at the grant date and is recognised over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that senior executives may ultimately realise should the equity instruments vest. The fair value of options at the date of their grant has been determined in accordance with AASB 2 applying a Black-Scholes valuation method. The assumptions underpinning these valuations are set out in Note 32 to the financial statements.
- (4) The 2012 amount represents cash STI payments earned by the executive during the year ended 31 December 2012, which are expected to be paid in March 2013 and were approved by the Board on 16 February 2013.
- (5) Includes automotive allowances, reimbursements of financial and taxing assistance, dividends received on Share Rights.
- (6) Includes 401(k) plan matching contributions made by the employing entity in the United States.
- (7) Includes 401(k) profit sharing contributions made by the employing entity in the United States.
- (8) Mr. Kipp's employment terminated on 3 October 2012.

## 5.2. RIGHTS AND OPTIONS GRANTED

Table 5.2: Rights granted during the year ended 31 December 2012

Name	Share Rights			
	Number of Rights granted <sup>1</sup>	Future years payable <sup>2</sup>	Fair value per Right <sup>3</sup> US\$	Maximum value of grant <sup>4</sup> US\$
Craig Kipp	681,200	3 yrs	4.50	4,598,100
Joe Ragan III	90,000	3 yrs	4.50	506,250
Fabrizio Rasetti	90,000	3 yrs	4.50	506,250
Brad Baker	75,000	3 yrs	4.50	421,875
Michael Birch	90,000	3 yrs	4.50	506,250
Alan Sides	70,000	3 yrs	4.50	393,750

- (1) The grants made to senior executives constituted their full LTI entitlement for 2012 and were made on 15 March 2012 on the terms summarised above. Any Rights that do not vest on the vesting date will be forfeited.
- (2) Rights vest on 15 March 2015 subject to performance over the period from 1 January 2013 to 31 December 2014 and/or continued service until the vesting date.
- (3) The fair value was calculated as at the grant date of 15 March 2012.
- (4) The maximum fair value of the grant is based on the fair value per instrument and full achievement of the stretch targets. The minimum total value of the grant, if the applicable performance conditions are not met, is nil.

There were no options or Cash Rights granted during the year ended 31 December 2012.

## 5.3 SERVICE CONTRACTS AND TERMINATION PROVISIONS

Name and position held at the end of financial year	Duration of contract	Notice period by Company	Notice period by executive	Termination payments (where these are in addition to statutory entitlements)
<b>Craig Kipp</b> Former Chief Executive Officer, President (employment terminated 3 October 2012)	No fixed term	None required	180 days	For termination with cause, statutory entitlements only For termination without cause: <ul style="list-style-type: none"> <li>• 12 months' salary</li> <li>• Pro-rata bonus to termination date</li> <li>• Waiver of medical insurance premiums for 12 months</li> <li>• Up to \$100,000 relocation expense reimbursement</li> <li>• Tax gross-up payment should any termination or other contractual payment be deemed subject to an excise tax under the US tax code</li> </ul>
<b>Joe Ragan III</b> Chief Financial Officer	No fixed term	None required	90 days	For termination with cause, statutory entitlements only For termination without cause: <ul style="list-style-type: none"> <li>• 12 months' salary</li> <li>• Pro-rata bonus to termination date</li> <li>• Waiver of medical insurance premiums for 12 months</li> </ul>
<b>Fabrizio Rasetti</b> Senior Vice President, General Counsel and Secretary	No fixed term	None required	90 days	For termination with cause, statutory entitlements only For termination without cause: <ul style="list-style-type: none"> <li>• 12 months' salary</li> <li>• Pro-rata bonus to termination date</li> <li>• Waiver of medical insurance premiums for 12 months</li> </ul>

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Name and position held at the end of financial year	Duration of contract	Notice period by Company	Notice period by executive	Termination payments (where these are in addition to statutory entitlements)
<b>Brad Baker</b> Senior Vice President, Human Resources	No fixed term	None required	90 days	For termination with cause, statutory entitlements only  For termination without cause: <ul style="list-style-type: none"> <li>• 12 months' salary</li> <li>• Pro-rata bonus to termination date</li> <li>• Waiver of medical insurance premiums for 12 months</li> </ul>
<b>Alan Sides</b> Vice President, Global Products	No fixed term	None required	90 days	For termination with cause, statutory entitlements only  For termination without cause: <ul style="list-style-type: none"> <li>• 12 months' salary</li> <li>• Pro-rata bonus to termination date</li> <li>• Waiver of medical insurance premiums for 12 months</li> </ul>
<b>Michael Birch</b> Vice President, Global Drilling Services	No fixed term	None required	90 days	For termination with cause, statutory entitlement only  For termination without cause: <ul style="list-style-type: none"> <li>• 12 months' salary</li> <li>• Pro-rata bonus to termination date</li> <li>• Waiver of medical insurance premiums for 12 months</li> </ul>

Under the terms of the Company's LTIP and option plans, the Board has discretion to provide for early vesting of all or a portion of unvested LTIP Rights and options depending on the circumstances of an employee's termination. In addition, the executive employment contracts listed above contain a twelve-month non-competition and non-solicitation covenant in the Company's favour. The Company may, at its option, extend the term of the covenants upon an executive's termination of employment for up to an additional twelve months in exchange for monthly payments of the executive's base salary for the term of the extension.

## 6. NON-EXECUTIVE DIRECTOR ARRANGEMENTS

This section explains the remuneration structure and outcomes for non-executive Directors.

### 6.1. NON-EXECUTIVE DIRECTORS' FEE STRUCTURE

Non-executive Directors are remunerated by a fixed annual base fee with additional fees paid for serving on Board committees. The fees are determined within a maximum aggregate fee pool that is approved by shareholders in general meeting. The current approved fee pool limit is A\$2 million, which has not changed since the Company's initial public offering in 2007. During the financial year, \$1,355,000 of the pool was utilised for non-executive Director fees, being approximately 68% of the fee pool limit.

In 2011, the Board performed a detailed review of the NED remuneration structure, and in 2012 determined to make no adjustments to NED remuneration.

In consideration of Mr McLemore's duties as interim CEO following the termination of Mr Kipp's employment in October, the Board determined to pay Mr McLemore an additional monthly fee of \$37,500 until the earlier of the appointment of a new CEO or six months from the Board's approval. In addition, Mr McLemore will be reimbursed for reasonable expenses



associated with temporary living arrangements in Salt Lake City while serving in this capacity. Mr McLemore is not eligible to participate in the Company's short- or long-term incentive plans.

Table 6.1: Components of non-executive Director remuneration

<u>Component</u>	<u>Explanation</u>
Board fees	<p>Current base fees per annum are:</p> <ul style="list-style-type: none"> <li>• \$120,000 for non-executive Directors other than the Chairman; and</li> <li>• \$300,000 for the Chairman of the Board</li> </ul>
Committee fees	<p>Current committee fees for non-executive Directors (other than the Chairman) are:</p> <ul style="list-style-type: none"> <li>• \$15,000 annually for committee members; and</li> <li>• \$30,000 annually for committee chairs.</li> </ul> <p>Where the Chairman of the Board sits on a committee, he does not receive any additional fee.</p>
Other fees/benefits	<p>Non-executive Directors are entitled to be reimbursed for all reasonable out-of-pocket expenses incurred in carrying out their duties, including travel costs. The Chairman also is entitled to reimbursement for office and secretarial support.</p> <p>Non-executive Directors may also, with the approval of the Board, be paid additional fees for extra services or special exertions for the benefit of the Company.</p> <p>Non-executive Directors are not entitled to receive any performance-related remuneration, such as short-term or long-term incentives.</p>
Post-employment benefits	<p>Compulsory superannuation contributions for Australian-resident non-executive Directors are included in the base fee and additional committee fees set out above.</p> <p>Non-executive Directors do not receive any retirement benefits other than statutory superannuation contributions.</p>

## 6.2 NON-EXECUTIVE SHAREHOLDING GUIDELINE

In 2011, the Board implemented a shareholding guideline requiring non-executive Directors to accumulate 30,000 Boart Longyear shares over a five-year period from the latter of 1 September 2011 or the date of their appointment to the Board.

## 6.3. NON-EXECUTIVE DIRECTOR SHARE ACQUISITION PLAN

In February 2008, the Remuneration Committee recommended, and the Board approved, the establishment of a non-executive Director Share Acquisition Plan ("NEDSAP") as foreshadowed in the Company's prospectus.

The NEDSAP is a fee sacrifice plan in which only non-executive Directors may participate. Participation in the NEDSAP is voluntary and non-executive Directors may elect to sacrifice up to 100% of their pre-tax base and committee fees to acquire ordinary shares at the prevailing market price.

Shares acquired under the NEDSAP will be subject to a holding lock for up to 10 years, during which they are unable to deal with their shares. The holding lock may be removed in certain circumstances, including a cessation of directorship.

No shares were purchased under this plan during the year ended 31 December 2012.

## 6.4. DETAILS OF REMUNERATION PAID TO NON-EXECUTIVE DIRECTORS

Details of non-executive Directors' remuneration for the year ended 31 December 2012 and 2011 are set out in the table below.

Table 6.4: Non-executive Director remuneration

	<b>Fees (incl. committee fees) <sup>1</sup></b>	<b>Superannuation contributions <sup>2</sup></b>	<b>Shares</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
David McLemore <sup>3</sup>				
2012	412,500	-	-	412,500
2011	300,000	-	-	300,000
Bruce Brook				
2012	151,376	13,624	-	165,000
2011	129,969	11,697	-	141,666
Roger Brown				
2012	165,000	-	-	165,000
2011	130,000	-	-	130,000
Roy Franklin				
2012	165,000	-	-	165,000
2011	134,167	-	-	134,167
Tanya Fratto <sup>4</sup>				
2012	150,000	-	-	150,000
2011	82,500	-	-	82,500
Barbara Jeremiah <sup>5</sup>				
2012	147,500	-	-	147,500
2011	30,000	-	-	30,000
Peter St. George				
2012	137,615	12,385	-	150,000
2011	112,385	10,115	-	122,500

(1) Please refer to Table 6.1 above for details of the annual non-executive Director base fees and committee fees.

(2) Includes compulsory superannuation guarantee payments to Australian-resident Directors which are deducted from their base and additional committee fees.

(3) Includes \$112,500 of additional fees received by Mr McLemore in recognition of his duties as interim Chief Executive Officer from October 2012 through December 2012.

(4) Ms Fratto was appointed a Director effective 1 June 2011.

(5) Ms Jeremiah was appointed a Director effective 1 October 2011.

## NON-AUDIT SERVICES

Details of amounts paid or payable for non-audit services provided during the year by the auditor are outlined in Note 35 to the financial statements.

The auditor of Boart Longyear Limited is Deloitte Touche Tohmatsu. The Company has employed Deloitte Touche Tohmatsu on assignments additional to their audit duties where their expertise and experience with the Company are important. These assignments principally have been related to tax advice and tax compliance services, the magnitude of which is impacted by the global reach of the Company.

The Company and its Audit, Compliance & Risk Committee ("Audit Committee") are committed to ensuring the independence of the external auditors. Accordingly, significant scrutiny is given to non-audit engagements of the external auditor. The Company has a formal pre-approval policy which requires the pre-approval of non-audit services by the Chairman of the Audit Committee or the Audit Committee. Additionally, the total annual fees for such non-audit services cannot exceed the auditor's annual audit fees without the approval of the Audit Committee. The Audit Committee believes that the combination of these two approaches results in an effective procedure to pre-approve services performed by the external auditor.

Consistent with the approach outlined above, the Audit Committee approved Deloitte Touche Tohmatsu's services on a tax-related business improvement project for the years ended 31 December 2012 and 2011. It is expected that this project will conclude during the year ending 31 December 2013. The Company expects that the level of non-audit services will continue to be below the audit fee in subsequent years.

None of the services performed by the auditor undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing economic risks and rewards.

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and are of the opinion that the services, as disclosed in Note 35 to the financial statements, do not compromise the external auditor's independence.

## INDEMNIFICATION OF DIRECTORS AND OFFICERS AND AUDITORS

The Directors and officers of the Company are indemnified by the Company to the maximum extent permitted by law against liabilities incurred in their respective capacities as Directors or officers. In addition, during the financial year, the Company paid premiums in respect of contracts insuring Directors and officers of the Company and any related body corporate against liabilities incurred by them to the extent permitted by the Corporations Act 2001. The insurance contracts prohibit disclosure of the nature of the liability and the amount of the premium.

The Company has not paid any premiums in respect of any contract insuring Deloitte Touche Tohmatsu against a liability incurred in the role as an auditor of the Company.

## AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 44 of the annual financial report.

# Annual Financial Report

31 DECEMBER 2012

BOART LONGYEAR LIMITED

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## ROUNDING OF AMOUNTS

Boart Longyear Limited is a company of a kind referred to in Class Order 98/100, 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 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.

On behalf of the Directors



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David McLemore

Chairman and Interim Chief Executive Officer

Sydney, 18 February 2013

The Board of Directors  
Boart Longyear Limited  
26 Butler Boulevard  
Adelaide Airport SA 5650  
Australia

18 February 2013

Dear Directors

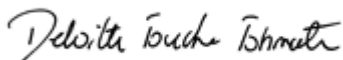
**Boart Longyear Limited**

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 audit of the consolidated financial statements of Boart Longyear Limited for the financial year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Samantha Lewis  
Partner  
Chartered Accountants

## **Independent Auditor's Report to the Members of Boart Longyear Limited**

### **Report on the Financial Report**

We have audited the accompanying financial report of Boart Longyear Limited, which comprises the statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 47 to 110.

#### *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 gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 4, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements 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. Those 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 company'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 company'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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Auditor's Independence Declaration*

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

## *Opinion*

In our opinion:

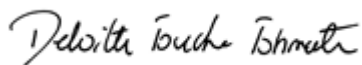
- (a) the financial report of Boart Longyear Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 4.

## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 16 to 41 of the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## *Opinion*

In our opinion the Remuneration Report of Boart Longyear Limited for the year ended 31 December 2012, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Samantha Lewis  
Partner  
Chartered Accountants  
Sydney, 18 February 2013

## 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;
- (b) in the Directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 4 to the financial statements;
- (c) 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; and
- (d) the Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001.



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David McLemore

Chairman and Interim Chief Executive Officer

Sydney, 18 February 2013



# Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

	Note	2012 US\$'000	2011 US\$'000
Revenue	6	2,011,507	2,020,322
Cost of goods sold		(1,499,060)	(1,456,023)
Gross margin		512,447	564,299
Other income		3,097	3,215
General and administrative expenses		(258,107)	(263,607)
Selling and marketing expenses		(39,551)	(38,955)
Restructuring expenses and related impairments	10	(67,584)	(29)
Other expenses		(23,454)	(19,288)
Operating profit		126,848	245,635
Interest income	6	3,143	5,111
Finance costs	7	(30,065)	(23,936)
Profit before taxation		99,926	226,810
Income tax expense	9	(31,762)	(66,939)
<b>Profit for the year attributable to equity holders of the parent</b>		<b>68,164</b>	<b>159,871</b>
<b>Earnings per share:</b>			
Basic earnings per share	25	15.0 cents	35.1 cents
Diluted earnings per share	25	14.8 cents	34.8 cents
<b>Other comprehensive income</b>		<b>2012 US\$'000</b>	<b>2011 US\$'000</b>
Profit for the year attributable to equity holders of the parent		68,164	159,871
Gain on cash flow hedges recorded in equity		-	193
Transfer to profit or loss on cash flow hedges		-	137
Exchange differences on translation of foreign operations		6,324	(26,087)
Actuarial losses related to defined benefit plans		(19,448)	(27,782)
Income tax on income and expense recognised directly through equity		3,088	8,165
Other comprehensive loss for the year (net of tax)		(10,036)	(45,374)
<b>Total comprehensive income for the year attributed to equity holders of the parent</b>		<b>58,128</b>	<b>114,497</b>

# Consolidated Statement of Financial Position

As at 31 December 2012

BOART LONGYEAR LIMITED

	Note	2012 US\$'000	2011 US\$'000
<b>Current assets</b>			
Cash and cash equivalents	30a	89,628	82,286
Trade and other receivables	11	260,502	320,756
Inventories	12	533,690	400,439
Current tax receivable	9	39,331	29,993
Prepaid expenses and other assets		42,021	23,782
		965,172	857,256
Assets classified as held for sale	31	33,997	-
<b>Total current assets</b>		<b>999,169</b>	<b>857,256</b>
<b>Non-current assets</b>			
Property, plant and equipment	14	628,691	508,231
Goodwill	15	290,786	294,063
Other intangible assets	16	128,158	129,843
Deferred tax assets	9	192,352	144,587
Other assets		11,582	10,760
		1,251,569	1,087,484
<b>Total non-current assets</b>		<b>1,251,569</b>	<b>1,087,484</b>
<b>Total assets</b>		<b>2,250,738</b>	<b>1,944,740</b>
<b>Current liabilities</b>			
Trade and other payables	17	284,251	316,660
Provisions	19	36,271	22,286
Current tax payable	9	97,486	82,000
Loans and borrowings	18	189	2,518
		418,197	423,464
<b>Total current liabilities</b>		<b>418,197</b>	<b>423,464</b>
<b>Non-current liabilities</b>			
Loans and borrowings	18	601,733	310,343
Deferred tax liabilities	9	7,757	2,905
Provisions	19	87,634	73,588
		697,124	386,836
<b>Total non-current liabilities</b>		<b>697,124</b>	<b>386,836</b>
<b>Total liabilities</b>		<b>1,115,321</b>	<b>810,300</b>
<b>Net assets</b>		<b>1,135,417</b>	<b>1,134,440</b>
<b>Equity</b>			
Issued capital	21	1,122,189	1,128,923
Reserves	22	70,914	59,667
Other equity		(137,182)	(137,182)
Retained earnings	23	79,496	83,032
		1,135,417	1,134,440
<b>Total equity</b>		<b>1,135,417</b>	<b>1,134,440</b>

# Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

	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)/ retained earnings US\$'000	Total attributable to owners of the parent US\$'000
Balance at 1 January 2011	1,132,051	76,421	8,415	(259)	(137,182)	(19,477)	1,059,969
Profit for the period	-	-	-	-	-	159,871	159,871
Other comprehensive loss for the period	-	(26,087)	-	259	-	(19,546)	(45,374)
Payment of dividends	-	-	-	-	-	(37,816)	(37,816)
Vesting of LTIP rights, restricted shares	5,204	-	(5,204)	-	-	-	-
Purchase of shares for LTIP	(8,332)	-	-	-	-	-	(8,332)
Share-based compensation	-	-	6,122	-	-	-	6,122
<b>Balance at 31 December 2011</b>	<b>1,128,923</b>	<b>50,334</b>	<b>9,333</b>	<b>-</b>	<b>(137,182)</b>	<b>83,032</b>	<b>1,134,440</b>
Balance at 1 January 2012	1,128,923	50,334	9,333	-	(137,182)	83,032	1,134,440
Profit for the period	-	-	-	-	-	68,164	68,164
Other comprehensive loss for the period	-	-	-	-	-	-	-
	-	6,324	-	-	-	(16,360)	(10,036)
Payment of dividends	-	-	-	-	-	(55,340)	(55,340)
Vesting of LTIP rights, restricted shares	2,435	-	(2,435)	-	-	-	-
Purchase of shares for LTIP	(9,169)	-	-	-	-	-	(9,169)
Share-based compensation	-	-	7,358	-	-	-	7,358
<b>Balance at 31 December 2012</b>	<b>1,122,189</b>	<b>56,658</b>	<b>14,256</b>	<b>-</b>	<b>(137,182)</b>	<b>79,496</b>	<b>1,135,417</b>

# Consolidated Statement of Cash Flows

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

	Note	2012 US\$'000	2011 US\$'000
<b>Cash flows from operating activities</b>			
Profit for the year		68,164	159,871
<i>Adjustments provided by operating activities:</i>			
Income tax expense recognised in profit		31,762	66,939
Finance costs recognised in profit	7	30,065	23,936
Depreciation and amortisation	8	127,443	110,623
Interest income recognised in profit	6	(3,143)	(5,111)
Loss (gain) on sale or disposal of non-current assets	8	900	(365)
Impairment of current and non-current assets		36,300	450
Non-cash foreign exchange loss		1,472	686
Share-based compensation	8, 32	7,304	5,854
Long-term compensation - cash rights	8	3,336	2,670
<i>Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:</i>			
Decrease (increase) in assets:			
Trade and other receivables		45,906	(62,052)
Inventories		(140,276)	(126,305)
Other assets		(20,588)	11,286
Increase (decrease) in liabilities:			
Trade and other payables		(39,668)	58,844
Provisions		6,742	(3,801)
Cash generated from operations		155,719	243,525
Interest paid		(28,928)	(23,541)
Interest received	6	3,143	5,111
Income taxes paid		(65,722)	(27,394)
Net cash flows from operating activities		<b>64,212</b>	<b>197,701</b>

# Consolidated Statement of Cash Flows (continued)

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

	<b>Note</b>	<b>2012 US\$'000</b>	<b>2011 US\$'000</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(247,653)	(179,655)
Proceeds from sale of property, plant and equipment		3,266	2,908
Intangible costs paid		(35,141)	(41,292)
Net cash flows used in investing activities		<b>(279,528)</b>	<b>(218,039)</b>
<b>Cash flows from financing activities</b>			
Payments for share purchases for LTIP		(9,169)	(8,332)
Payments for debt issuance costs		(490)	(7,627)
Proceeds from borrowings		418,444	752,237
Repayment of borrowings		(129,872)	(683,708)
Dividends paid	<b>24</b>	(55,340)	(37,816)
Net cash flows from financing activities		<b>223,573</b>	<b>14,754</b>
Net increase (decrease) in cash and cash equivalents		8,257	(5,584)
Cash and cash equivalents at the beginning of the year		82,286	94,944
Effects of exchange rate changes on the balance of cash held in foreign currencies		(915)	(7,074)
<b>Cash and cash equivalents at the end of the year</b>	<b>30a</b>	<b>89,628</b>	<b>82,286</b>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 1. GENERAL INFORMATION

Boart Longyear Limited (the "Parent") is a public company listed on the Australian Securities Exchange Limited ("ASX") and is incorporated in Australia. Boart Longyear Limited and subsidiaries (collectively referred to as the "Company") operate in five geographic regions, which are defined as North America, Latin America, Europe, Asia Pacific, and Africa.

Boart Longyear Limited's registered office and its principal place of business are as follows:

### Registered office

26 Butler Boulevard  
Burbridge Business Park  
Adelaide Airport, SA 5650  
Tel: +61 (8) 8375 8375

### Principal place of business

Riverpark Corporate Center #14 Suite 600  
10808 South River Front Parkway  
South Jordan, Utah 84095  
United States of America  
Tel: +1 (801) 972 6430

## 2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Company 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 annual reporting period.

### Standards and Interpretations issued not yet effective

The accounting standards and AASB Interpretations that will be applicable to the Company and may have an effect in future reporting periods 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 Company.

#### Financial instruments

AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9 'Financial Instruments' introduces new requirements for classifying and measuring financial assets, as follows:

- debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortised cost (the use of fair value is optional in some limited circumstances);
- investments in equity instruments can be designated as 'fair value through other comprehensive income' with only dividends being recognised in profit or loss;
- all other instruments (including all derivatives) are measured at fair value with changes recognised in the profit or loss; and
- the concept of "embedded derivatives" does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines.

These amendments will be adopted for the year ending 31 December 2015 subject to the AASB adopting the amendments to IFRS 9 (AASB effective date is currently 1 January 2013). Management has not yet assessed the impact of adoption of these amendments.

#### Consolidated financial statements

AASB 10 'Consolidated Financial Statements' introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee. This standard will be adopted for the year ending 31 December 2013. Management does not believe that the adoption of this standard will have a significant impact on the Company's financial results or statement of financial position.

#### Fair value measurement

AASB 13 'Fair Value Measurement' defines fair value and provides guidance on how to determine fair value and requires disclosures about fair value measurement. This standard will be adopted for the year ending 31 December 2013. Management has not yet assessed the impact of the adoption of this standard.

## 2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONTINUED)

### Employee benefits

Amendments to AASB 119 'Employee Benefits' require changes in the calculation of the net defined benefit liability and pension expense and provides changes to certain financial statement disclosures. These amendments will be adopted for the year ending 31 December 2013. The primary impact will be that beginning for 2013, the interest cost and expected return on assets will be combined into net financing cost. This will be determined as the interest on the net liability based on the assumed discount rate. The net impact will be an increase in the pension expense which will vary from country to country depending on the spread between the discount rate and the expected return on asset assumption used previously. Management does not believe that the adoption of this standard will have a significant impact on the Company's financial results or statement of financial position.

### Financial instruments

A revised version of AASB 9 'Financial Instruments' incorporates revised requirements for the classification and measurement of financial liabilities. This revised standard will be adopted for the year ending 31 December 2013. Management does not believe that the adoption of this standard will have a significant impact on the Company's financial results or statement of financial position.

### Disclosure of interests in other entities

AASB 12 'Disclosure of Interests in Other Entities' requires disclosure of information that enables financial statement users to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard will be adopted for the year ending 31 December 2013. Management has not yet assessed the impact of the adoption of this standard.

Additional amendments of Australian Accounting Standards have been issued, the adoption of which management does not believe will have a significant impact on the Company's financial results or statement of financial position.

## 3. CRITICAL ACCOUNTING POLICIES

In applying A-IFRS, management is required to make judgements, estimates and form assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported revenue and expenses during the periods presented herein. On an ongoing basis, management evaluates its judgements and estimates in relation to asset, liabilities, contingent liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the respective periods in which they are revised if only those periods are affected, or in the respective periods of the revisions as well as future periods if the revision affects both current and future periods.

The key judgements, estimates and assumptions that have or could have the most significant effect on the amounts recognised in the financial statements relate to the following areas:

### **(a) Estimated Impairment of Goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Company to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. These estimates are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets.

The carrying amount of goodwill at 31 December 2012 and 31 December 2011 was \$290,786,000 and \$294,063,000, respectively, after an impairment loss of \$6,839,000 was recognised during 2012. See Note 15.

## 3. CRITICAL ACCOUNTING POLICIES (CONTINUED)

### (b) Other Intangible Assets

The Company values identifiable other intangible assets acquired in a business combination based on a combination of independent valuations in some cases and management's estimate of the net present value of estimated future cash flows of the assets. Identifiable intangible assets are amortised over their estimated useful lives. Given the estimates involved, management reviews the carrying value of these assets annually for impairment.

The carrying amount of other intangible assets at 31 December 2012 and 31 December 2011 was \$128,158,000 and \$129,843,000, respectively, after impairment losses of \$15,554,000 and \$393,000 were recognised during 2012 and 2011, respectively. See Note 16.

### (c) Useful lives of Property, Plant and Equipment

The estimation of useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least annually and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

### (d) Income Taxes

The Company is subject to income taxes in Australia and other jurisdictions around the world in which the Company operates. Significant judgement is required in determining the Company's current tax assets and liabilities. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses, foreign tax credits and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation and its interaction with income tax accounting principles. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and tax liabilities recognised on the balance sheet. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and tax liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

### (e) Defined Benefit Pension Plans

The Company's accounting policy for defined benefit pension plans requires management to make annual estimates and assumptions about future returns on classes of assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. Where actual experience differs to these estimates, actuarial gains and losses are recognised directly in equity.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with the requirements of applicable accounting standards including Australian interpretations and the Corporations Act 2001. The financial report includes the consolidated financial statements of the Company.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with A-IFRS ensures that the financial statements and notes of the Company comply with IFRS.

The financial report is presented in United States dollars, which is Boart Longyear Limited's functional and presentation currency. The financial statements were authorised for issue by the Directors on 18 February 2013.



## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Basis of preparation

The financial report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments that are stated at fair value. Cost is based on fair values of the consideration given in exchange for assets.

At the Company's annual general meeting on 11 May 2010, shareholders approved a 10 for 1 share consolidation. Trading in the consolidated shares commenced 13 May 2010. The Company's earnings per share information, as well as the number of shares and rights under the LTIP, option plan and restricted shares have been restated in this report using the consolidated share amounts.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. These accounting policies have been consistently applied by each entity in the Company.

The consolidated financial statements are prepared by combining the financial statements of all of the entities that comprise the consolidated entity, Boart Longyear Limited and subsidiaries as defined in AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are applied by each entity and in the preparation and presentation of the consolidated financial statements.

Subsidiaries are all entities for which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until such time as the Company ceases to control such entity. Where necessary, adjustments are made to the financial statements of subsidiaries to make their accounting policies consistent with Company accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised income and expenses arising from inter-company transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The accounting policies and methods of computation are the same as those in the prior annual financial report. Comparative figures have been adjusted to conform to the changes in presentation in the current reporting period, where necessary.

The significant accounting policies set out below have been applied in the preparation and presentation of the financial report for the year ended 31 December 2012 and the comparative information.

### (a) Presentation currency

Results of operating businesses are recorded in their functional currencies, which are generally their local currencies. The US dollar is the Company's predominant currency. Accordingly, management believes that reporting the Company's financial statements in the US dollar is most representative of the Company's financial results and position and therefore the consolidated financial information is presented in US dollars.

### (b) Cash and cash equivalents

Cash and cash equivalents primarily include deposits with financial institutions repayable upon demand. Cash overdrafts are included in current liabilities in the statement of financial position unless there is a legal right of offset.

### (c) Trade and other receivables

Trade receivables are recorded at amortised cost. The Company reviews collectability of trade receivables on an ongoing basis and provides allowances for credit losses when there is evidence that trade receivables may not be collectible. These losses are recognised in the income statement within operating expenses. When a trade receivable is determined to be uncollectible, it is written off against the allowance account for doubtful accounts. Subsequent recoveries of amounts previously written off are recorded in other income in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Inventories

Inventories are measured at the lower of cost or net realisable value. The cost of most inventories is based on a standard cost method, which approximates actual cost on a first-in first-out basis, and includes expenditures incurred in acquiring the inventories and 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 overhead expenses (including depreciation) 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.

Allowances are recorded for inventory considered to be excess or obsolete and damaged items are written down to the net realisable value.

### (e) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Costs include expenditures that are directly attributable to the acquisition of the assets, including the costs of materials and direct labour and other costs directly attributable to bringing the assets to a working condition for the intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate assets.

Subsequent costs related to previously capitalised assets are capitalised only when it is probable that they will result in commensurate future economic benefit and the costs can be reliably measured. All other costs, including repairs and maintenance, are recognised in profit or loss as incurred.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease terms or their useful lives. Items in the course of construction or not yet in service are not depreciated.

The following useful lives are used in the calculation of depreciation:

Buildings	20-40	years
Plant and machinery	5-10	years
Drilling rigs	5-12	years
Other drilling equipment	1-5	years
Office equipment	5-10	years
Computer equipment:		
Hardware	3-5	years
Software	1-7	years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Goodwill and other intangible assets

#### Goodwill

Goodwill resulting from business combinations is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the previously held equity interest in the acquiree (if any) over the net amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the carrying value of the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Upon disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### Trademarks and trade names

Trademarks and trade names recognised by the Company that are considered to have indefinite useful lives are not amortised. Each period, the useful life of each of these assets is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Trademarks and trade names that are considered to have a finite useful life are carried at cost less accumulated amortisation and accumulated impairment losses and have an average useful life of three years. Such assets are tested for impairment at least annually or more frequently if events or circumstances indicate that the asset might be impaired.

#### Contractual customer relationships

Contractual customer relationships acquired in business combinations are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be reliably measured. Contractual customer relationships have finite useful lives and are carried at cost less accumulated amortisation and accumulated impairment losses.

Contractual customer relationships are amortised over 10 – 15 years on a straight-line basis. Amortisation methods and useful lives are reassessed at each reporting date.

#### Patents

Patents are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over estimated useful lives of 10 - 20 years. Amortisation methods and useful lives are reassessed at each reporting date.

#### Research and development costs

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

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development costs are 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 Company intends to and has sufficient resources to complete development and to use or sell the asset. Capitalised costs include the cost of materials, direct labour and overhead costs directly attributable to preparing the asset for its intended use. Other development costs are expensed when incurred.

Capitalised development costs are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful lives, which on average is 15 years.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Leased assets

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards incidental to ownership of the leased assets to the Company. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Finance lease payments are apportioned between finance charges and reductions of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance leased assets are amortised on a straight-line basis over the shorter of the lease terms or the estimated useful lives of the assets.

Operating lease payments are recognised as expenses on a straight-line basis over the lease terms.

### Lease incentives

In the event that lease incentives are received at the inception of operating leases, such incentives are recognised as liabilities. The aggregate benefits of incentives are recognised as reductions of rental expense on a straight-line basis over the lease terms.

### (h) Current and deferred taxation

Income tax expense includes current and deferred tax expense (benefit). Income tax expense (benefit) is recognised in profit or loss except to the extent that amounts relate to items recognised directly in equity, in which case the income tax expense (benefit) is also recognised in equity, or amounts that relate to a business combination, in which case the income tax expense (benefit) is recognised in goodwill.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Management periodically evaluates provisions taken in tax returns with respect to situations in which applicable tax regulation is open to interpretation. The Company establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised using the balance sheet method, in respect of all temporary differences for which transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred but have not reversed at the balance sheet date. Temporary differences are differences between the Company's taxable income and its profit before taxation, as reflected in profit or loss, that arise from the inclusion of profits and losses in tax assessments in periods different from those in which they are recognised in profit or loss.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they likely will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted. 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Current and deferred taxation (continued)

#### Tax consolidation

The Company includes tax consolidated groups for the entities incorporated in Australia and the United States. Tax expense (benefit) and deferred tax assets/liabilities arising from temporary differences of the members of each tax-consolidated group are recognised in the separate financial statements of the members of that tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity. Tax credits of each member of the tax-consolidated group are recognised by the head entity in that tax-consolidated group.

Entities within the various tax-consolidated groups will enter into tax funding arrangements and tax-sharing agreements with the head entities. Under the terms of the tax funding arrangements, the relevant head entity and each of the entities in that tax-consolidated group will agree to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

### (i) Derivative financial instruments

The Company periodically enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps.

Derivatives are initially recognised at fair value at the date a derivative contract is executed and are subsequently remeasured to fair value at each reporting date. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Company designates certain derivatives as either hedges of the fair value of recognised assets, liabilities or firm commitments (fair value hedges), or hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

#### Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

#### Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Derivative financial instruments (continued)

#### Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses, other income, or interest expense as appropriate.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

### (j) Impairment

#### Non-financial assets

The Company'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 respective asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, a recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit or group of units.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use or 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 post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

#### Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate. An impairment loss is not recognised directly for trade receivables because the carrying amount is reduced through the use of an allowance account.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

### (k) Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent unsecured liabilities for goods and services provided to the Company prior to the end of the financial period that are unpaid and arise when the Company becomes obligated to make future payments.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Provisions

A provision is recognised if, as a result of a past event, the Company 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.

#### Warranties

The Company maintains warranty reserves for products it manufactures. A provision is recognised when the following conditions are met: 1) the Company has an obligation as a result of an implied or contractual warranty; 2) it is probable that an outflow of resources will be required to settle the warranty claims; and 3) the amount of the claims can be reliably estimated.

#### Restructuring

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan and the Company starts to implement the restructuring plan or announces the main features of the restructuring plan to those affected by the plan in a sufficiently specific manner to raise a valid expectation of those affected that the restructuring will be carried out. The Company's restructuring accruals include only the direct expenditures arising from the restructuring, which are those that are both necessarily incurred by the restructuring and not associated with the ongoing activities.

#### Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are less than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

### (m) Employee benefits

Liabilities for employee benefits for wages, salaries, annual leave, long service leave, and sick leave represent present obligations resulting from employees' services provided and are calculated at discounted amounts based on rates that the Company expects to pay as at reporting date, including costs such as workers' compensation insurance and payroll tax, when it is probable that settlement will be required and they are capable of being reliably measured.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Company as the benefits are provided to the employees.

Provisions are recognised for amounts expected to be paid under short-term cash bonus or profit-sharing plans if the Company has present legal or constructive obligations to pay these amounts as a result of past service provided by employees and the obligations can be reliably estimated.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Employee benefits (continued)

#### Defined contribution pension plans and post-retirement benefits

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The amount recognised as an expense in profit or loss in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

#### Defined benefit pension plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any fund assets is deducted.

The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Company's defined benefit obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Actuarial gains and losses arising from experience adjustments and related changes in actuarial assumptions are charged or credited to retained earnings.

#### Share-based payment transactions

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. For stock options, fair value is measured by use of a Black-Scholes-Merton model, which requires the input of highly subjective assumptions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

When determining expense related to long-term incentive plans, the Company considers the probability of shares vesting due to the achievement of performance metrics established by the Board of Directors related to long-term incentives that includes performance vesting conditions. The Company also estimates the portion of share and cash rights that will ultimately be forfeited. A forfeiture rate over the vesting period has been estimated, based upon extrapolation of historic forfeiture rates.

### (n) Loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. Debt issuance costs are amortised using the effective interest rate method over the life of the borrowing. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.



## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (o) Financial instruments

#### Debt and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

#### Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision or the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described in Note 4(q).

### (p) Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

### (q) Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and sales tax. Revenue is recognised when 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, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale and with local statute, but are generally when title and insurance risk has passed to the customer and the goods have been delivered to a contractually agreed location.

Revenue from services rendered is recognised in the statement of comprehensive income in proportion to the stage of completion of the transaction at the reporting date. The stage of completion of the contract is determined as follows:

- revenue from drilling services contracts is recognised on the basis of actual metres drilled or other services performed for each contract; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

### (r) Foreign currency

The financial statements of the Company and its subsidiaries have been translated into US dollars using the exchange rates at each balance sheet date for assets and liabilities and at an average exchange rates for revenue and expenses throughout the period. The effects of exchange rate fluctuations on the translation of assets and liabilities are recorded as movements in the foreign currency translation reserve ("FCTR").

The Company's presentation currency is the US dollar. The Company determines the functional currency of its subsidiaries based on the currency used in their primary economic environment, and, as such, foreign currency translation adjustments are recorded in the FCTR for those subsidiaries with a functional currency different from the US dollar.

Transaction gains and losses, and unrealised translation gains and losses on short-term inter-company and operating receivables and payables denominated in a currency other than the functional currency, are included in other income or other expenses in profit or loss.

### (s) Contingencies

The recognition of provisions for legal disputes is subject to a significant degree of judgement. Provisions are established when (a) the Company has a present legal or constructive obligation as a result of past events, (b) it is more likely than not that an outflow of resources will be required to settle the obligation, and (c) the amount of that outflow has been reliably estimated.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (t) Business combinations

Business combinations are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, consideration for acquisitions includes assets or liabilities resulting from contingent consideration arrangements, measured at the acquisition-date fair value. Subsequent changes in such fair values are adjusted against the costs of the acquisitions where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair values of contingent consideration classified as assets or liabilities are recognised in the statement of comprehensive income as incurred. Changes in the fair values of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits', respectively;
- liabilities or equity instruments related to the replacement by the Company of an acquiree's share-based payment awards are measured in accordance with AASB 2 'Share-based Payment'; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

### (u) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

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

Cash flows are included in the cash flow statement on a gross basis. 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 operating cash flows.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 5. SEGMENT REPORTING

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance is aggregated based on the Company's two general operating activities – Drilling Services and Products. The Drilling Services segment provides a broad range of drilling services to mining companies, energy companies, water utilities, environmental and geotechnical engineering firms, government agencies and other mining services companies. The Products segment designs, manufactures and sells drilling equipment and performance tooling to customers in the drilling services and mining industries.

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

### Segment revenue and results

	Segment revenue		Segment profit	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Drilling Services	1,516,203	1,447,881	186,992	212,542
Products	495,304	572,441	93,177	119,765
	<u>2,011,507</u>	<u>2,020,322</u>	<u>280,169</u>	<u>332,307</u>
Unallocated <sup>1</sup>			(85,737)	(86,643)
Restructure expenses and related impairments			(67,584)	(29)
Finance costs			(30,065)	(23,936)
Interest income			3,143	5,111
Profit before taxation			<u>99,926</u>	<u>226,810</u>

- (1) Unallocated costs include corporate general and administrative costs as well as other expense items such as foreign exchange gains or losses.

### Other segment information

	Depreciation and amortisation of segment assets		Additions to non-current assets <sup>2</sup>	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Drilling Services	102,610	89,448	241,524	138,538
Products	14,061	12,757	27,564	45,360
Total of all segments	116,671	102,205	269,088	183,898
Unallocated <sup>1</sup>	10,772	8,418	21,026	34,436
Total	<u>127,443</u>	<u>110,623</u>	<u>290,114</u>	<u>218,334</u>

- (1) Unallocated additions to non-current assets relate to the acquisition of general corporate assets such as software and hardware.  
 (2) Non-current assets excluding deferred tax assets.

The Company has no single external customer that provided more than 10% of the Company's revenue.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 5. SEGMENT REPORTING (CONTINUED)

### Geographic information

The Company's two business segments operate in five principal geographic areas – North America, Asia Pacific, Latin America, Africa, and Europe. The Company's revenue from external customers and information about its segment assets by geographical locations are detailed below:

	Revenue from external customers		Non-current assets <sup>1</sup>	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
North America	752,886	780,381	378,804	378,472
Asia Pacific	534,687	534,915	393,101	360,376
Latin America	314,877	290,509	116,649	98,529
Africa	305,550	288,168	140,703	83,104
Europe	103,507	126,349	29,960	22,416
Total	2,011,507	2,020,322	1,059,217	942,897

(1) Non-current assets excluding deferred tax assets.

## 6. REVENUE

An analysis of the Company's revenue for the year is as follows:

	2012 US\$'000	2011 US\$'000
Revenue from the rendering of services	1,516,202	1,447,881
Revenue from the sale of goods	495,305	572,441
	2,011,507	2,020,322
Interest income:		
Bank deposits	2,863	5,003
Other	280	108
	3,143	5,111
Total	2,014,650	2,025,433

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 7. FINANCE COSTS

	2012 US\$'000	2011 US\$'000
Interest on loans and bank overdrafts	28,965	21,252
Interest rate swap expense	-	347
Amortisation of debt issuance costs	951	1,179
Interest on obligations under finance leases	149	251
	<u>30,065</u>	<u>23,029</u>
Finance costs due to debt repayment:		
Interest rate swap expense	-	137
Write-off of debt issuance costs	-	770
	<u>-</u>	<u>907</u>
Total finance costs	<u>30,065</u>	<u>23,936</u>

## 8. PROFIT FOR THE YEAR

### (a) Gains and losses

Profit for the year includes the following gains and (losses):

	2012 US\$'000	2011 US\$'000
(Loss) gain on disposal of property, plant and equipment	(900)	365
Net foreign exchange losses	(5,949)	(3,381)
Net (expense) reversal of bad debt	(605)	(245)

### (b) Employee benefits expenses

	2012 US\$'000	2011 US\$'000
Salaries and wages	(592,371)	(591,464)
Post-employment benefits:		
Defined contribution plans	(23,863)	(21,175)
Defined benefit plans	(2,808)	(1,106)
Long-term incentive plans:		
Equity-settled share-based payments	(7,304)	(5,854)
Cash rights compensation	(3,336)	(2,670)
Termination benefits	(22,974)	(135)
Other employee benefits <sup>1</sup>	(166,771)	(154,794)
	<u>(819,427)</u>	<u>(777,198)</u>

(1) Other employee benefits include items such as medical benefits, workers' compensation, other fringe benefits, state taxes, etc.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 8. PROFIT FOR THE YEAR (CONTINUED)

### (c) Other

	2012 US\$'000	2011 US\$'000
Depreciation of non-current assets	(110,991)	(95,096)
Amortisation of non-current assets	(16,452)	(15,527)
Impairment of property, plant, and equipment	(6,164)	(57)
Impairment of intangibles	(15,554)	(393)
Impairment of goodwill	(6,839)	-
Impairment of inventory	(7,743)	(568)
Operating lease rental expense	(32,276)	(37,686)

## 9. INCOME TAXES

Income tax expense is as follows:

	2012 US\$'000	2011 US\$'000
<b>Income tax expense:</b>		
Current tax expense	70,913	68,574
Adjustments recognised in the current year in relation to the current tax of prior years	2,262	(5,208)
Deferred tax (benefit) expense	(41,413)	3,573
	<u>31,762</u>	<u>66,939</u>

### (a) The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

Profit before taxation	99,926	226,810
Income tax expense calculated at Australian rate of 30%	29,977	68,042
Impact of higher rate tax countries	4,903	5,196
Impact of lower rate tax countries	(646)	(20,473)
Net non-deductible/non-assessable items	3,024	(2,763)
Unrecognised tax losses	145	(826)
Profit/Losses subject to double taxation in the US	(2,468)	4,547
Unutilised foreign tax credits	7,055	16,908
Recognition of net deferred tax assets/liabilities arising in prior years	(16,827)	150
Deduction of foreign taxes	-	(5,594)
Other	4,337	6,960
	<u>29,500</u>	<u>72,147</u>
Under (over) provision from prior years	2,262	(5,208)
	<u>31,762</u>	<u>66,939</u>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 9. INCOME TAXES (CONTINUED)

### (b) Income tax recognised directly in equity during the period

The following current and deferred amounts were charged (credited) directly to equity during the year:

	2012 US\$'000	2011 US\$'000
Deferred tax:		
Actuarial movements on defined benefit plans	3,088	8,236
Cash flow hedges	-	(71)
	<u>3,088</u>	<u>8,165</u>

### (c) Current tax assets and liabilities

Current tax assets:

Income tax receivable attributable to:

Parent	(21,684)	(6,857)
Other entities in the tax consolidated group	26,069	14,282
Other entities	<u>34,946</u>	<u>22,568</u>
	<u>39,331</u>	<u>29,993</u>

Current tax liabilities:

Income tax payable attributable to:

Entities other than parent		
and entities in the consolidated group	97,486	82,000
	<u>97,486</u>	<u>82,000</u>

### (d) Deferred tax balances

Deferred tax comprises:

Temporary differences	118,801	99,055
Unused tax losses and credits	<u>65,794</u>	<u>42,627</u>
	<u>184,595</u>	<u>141,682</u>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 9. INCOME TAXES (CONTINUED)

2012	Opening balance US\$'000	Credited to income US\$'000	FX differences US\$'000	Credited to equity US\$'000	Closing balance US\$'000
<b>Deferred tax assets (liabilities)</b>					
<b>temporary differences</b>					
Property, plant and equipment	(5,691)	1,408	19	-	(4,264)
Provisions	4,162	6,358	(106)	-	10,414
Doubtful debts	188	169	(5)	-	352
Intangibles	(9,079)	(380)	232	-	(9,227)
Share-issue expenses	4,935	(2,487)	-	-	2,448
Accrued liabilities	2,590	2,016	(66)	-	4,540
Pension	10,156	2,291	(260)	3,088	15,275
Debt and interest	25,562	(522)	(654)	-	24,386
Inventory	17,616	7,330	(450)	-	24,496
Investments in subsidiaries	(1,500)	-	-	-	(1,500)
Unrealised foreign exchange	38,455	3,814	-	-	42,269
Other	11,661	(1,751)	(298)	-	9,612
	<u>99,055</u>	<u>18,246</u>	<u>(1,588)</u>	<u>3,088</u>	<u>118,801</u>
<b>Unused tax losses and credits:</b>					
Tax losses	33,611	(11,482)	-	-	22,129
Foreign tax credits	9,016	34,649	-	-	43,665
	<u>141,682</u>	<u>41,413</u>	<u>(1,588)</u>	<u>3,088</u>	<u>184,595</u>

Presented in the statement of financial position as follows:

Deferred tax asset	192,352
Deferred tax liability	<u>(7,757)</u>
	<u>184,595</u>



# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 9. INCOME TAXES (CONTINUED)

2011	Opening balance US\$'000	Credited to income US\$'000	FX differences US\$'000	Credited to equity US\$'000	Closing balance US\$'000
<b>Deferred tax assets (liabilities) temporary differences</b>					
Property, plant and equipment	(8,842)	3,054	97	-	(5,691)
Provisions	2,429	1,687	46	-	4,162
Doubtful debts	403	(223)	8	-	188
Intangibles	(9,605)	709	(183)	-	(9,079)
Acquisitions and restructuring costs	3,176	(3,237)	61	-	-
Share-issue expenses	11,182	(6,247)	-	-	4,935
Accrued liabilities	2,075	475	40	-	2,590
Pension	9,015	(7,267)	172	8,236	10,156
Debt and interest	13,523	11,781	258	-	25,562
Hedge loss	2,774	(2,703)	-	(71)	-
Unearned revenues	19,090	(5,473)	364	-	13,981
Inventory	13,874	3,478	264	-	17,616
Investments in subsidiaries	(1,500)	-	-	-	(1,500)
Unrealised foreign exchange	15,905	8,569	-	-	24,474
Other	5,782	5,770	109	-	11,661
	<u>79,281</u>	<u>10,373</u>	<u>1,236</u>	<u>8,165</u>	<u>99,055</u>
<b>Unused tax losses and credits:</b>					
Tax losses	48,371	(14,760)	-	-	33,611
Foreign tax credits	8,202	814	-	-	9,016
	<u>56,573</u>	<u>(13,946)</u>	<u>-</u>	<u>-</u>	<u>42,627</u>
	<u>135,854</u>	<u>(3,573)</u>	<u>1,236</u>	<u>8,165</u>	<u>141,682</u>

Presented in the statement of financial position as follows:

Deferred tax asset	144,587
Deferred tax liability	(2,905)
	<u>141,682</u>

	2012 US\$'000	2011 US\$'000
Unrecognised deferred tax assets		
Tax losses - revenue	3,582	2,449
Unused tax credits	32,889	63,754
	<u>36,471</u>	<u>66,203</u>

The Parent Entity and its wholly-owned Australian resident entities became part of the same tax-consolidated group with effect from 12 April 2007 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Boart Longyear Limited. Companies within the US group also form a tax-consolidated group within the United States.

Entities within the Australian tax-consolidated group have entered into tax-funding arrangements with the head entity. Under the terms of the tax-funding arrangements, the tax-consolidated groups and each of the entities within the tax-consolidated group agrees to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable or payable to other entities in the tax-consolidated group.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 9. INCOME TAXES (CONTINUED)

The Canada Revenue Agency ("CRA") has been reviewing the Company's tax returns for the years 2005 to 2009. The review has been broken down into two time periods, 2005 to 2006 and 2007 to 2009. The review of the first time period was completed in 2011, and assessments were received in 2011 and 2012. The review of the second time period currently is underway and is expected to be completed in 2013.

The majority of the taxes, interest and penalties assessed for the first time periods relate to profits which the CRA asserts should have been attributable to the Company's Canadian operations. These profits were assessed in other jurisdictions and taxes were paid in those jurisdictions, many of which have tax rates similar to Canada.

The Company disagrees with the CRA's conclusions and has filed a Notice of Objection for the 2005 to 2006 time periods. The Company is required to provide security while its appeal of the assessments is under consideration, and the Company is in discussions with the CRA as to its requirements for such security. Furthermore, the Company has requested relief for the assessments for the period through a process known as "competent authority," which allows interested jurisdictions to determine where the Company's income and costs should be reported. This process avoids double payment of taxes, but the Company would be exposed to penalties and interest on any underpayments. The Company will likely follow similar procedures for any assessments that may be received for the 2007 to 2009 review.

The Company believes it is appropriately reserved in respect of this matter.

## 10. RESTRUCTURING AND IMPAIRMENT CHARGES

During 2012, the Company initiated a significant effort to reduce operating costs through a series of restructuring activities. The Company's restructuring efforts include:

- reduction of drilling services and manufacturing operating and administrative staff levels;
- reduction of sales, general and administrative staff levels;
- consolidation of drilling services, manufacturing and administrative facilities;
- relocation of certain manufacturing activities to lower cost facilities; and
- the proposed sale of non-mining environmental and infrastructure businesses (see Note 31).

The Company incurred costs related to executing the restructuring and cost reduction plans, including costs associated with employee separations, leased facilities, and impairments of inventory and capital equipment related to relocating certain manufacturing activities and resizing the business. Expenses related to executing the restructuring and cost reduction plan were as follows:

	2012 US\$'000	2011 US\$'000
Employee separation costs	22,974	166
Onerous leases	8,514	(142)
Impairment of inventory	7,743	-
Impairment of property, plant and equipment	5,960	-
Impairment of goodwill	6,839	-
Impairment of intangibles	3,491	-
Impairment of development asset	8,416	-
Impairment of software	3,647	5
	<u>67,584</u>	<u>29</u>
Net of tax	<u>46,102</u>	<u>20</u>

Of these expenses, approximately \$13 million relate to cash expenses that were incurred in 2012.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 10. RESTRUCTURING AND IMPAIRMENT CHARGES (CONTINUED)

Restructuring expenses relate to the following expense categories:

	2012 US\$'000	2011 US\$'000
Cost of goods sold	25,383	-
General and administrative expenses	20,113	16
Selling and marketing expenses	3,326	13
Research and development	8,434	-
Other expense	10,328	-
	<u>67,584</u>	<u>29</u>
Net of Tax	<u>46,102</u>	<u>20</u>

## 11. TRADE AND OTHER RECEIVABLES

	2012 US\$'000	2011 US\$'000
Trade receivables	222,248	292,719
Allowance for doubtful accounts	(1,841)	(1,412)
Goods and services tax receivable	35,082	20,245
Other receivables	5,013	9,204
	<u>260,502</u>	<u>320,756</u>

The ageing of trade receivables is detailed below:

	2012 US\$'000	2011 US\$'000
Current	156,357	220,532
Past due 0 - 30 days	45,273	45,619
Past due 31 - 60 days	7,074	11,344
Past due 61-90 days	6,005	7,778
Past due 90 days	7,539	7,446
	<u>222,248</u>	<u>292,719</u>

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

	2012 US\$'000	2011 US\$'000
Opening balance	1,412	3,619
Additional provisions	1,583	500
Amounts used	(186)	(2,361)
Amounts reversed	(978)	(255)
Foreign currency exchange differences	10	(91)
Closing balance	<u>1,841</u>	<u>1,412</u>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 11. TRADE AND OTHER RECEIVABLES (CONTINUED)

The average credit period on sales of goods as at 31 December 2012 is 53 days (2011: 52 days). No interest is charged on trade receivables.

The Company's policy requires customers to pay the Company in accordance with agreed payment terms. The Company'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 Company holds security for a number of trade receivables in the form of letters of credit, deposits, and advanced payments.

The Company has used the following basis to assess the allowance loss for trade receivables and as a result is unable to specifically allocate the allowance to the ageing categories shown above:

- 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.

## 12. INVENTORIES

	2012 US\$'000	2011 US\$'000
Raw materials	52,606	32,019
Work in progress	13,029	6,774
Finished products	468,055	361,646
	<u>533,690</u>	<u>400,439</u>

## 13. FINANCIAL INSTRUMENTS

### Capital risk management

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

The capital structure of the Company consists of debt, which includes the loans and borrowings disclosed in Note 18, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves, and retained earnings as disclosed in Notes 21, 22, and 23, respectively.

### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 4.

### Categories of financial instruments

Financial assets	2012 US\$'000	2011 US\$'000
<i>Current</i>		
Cash and cash equivalents	89,628	82,286
Trade and other receivables	260,502	320,756
	<u>350,130</u>	<u>403,042</u>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 13. FINANCIAL INSTRUMENTS (CONTINUED)

<b>Financial liabilities</b>	<b>2012 US\$'000</b>	<b>2011 US\$'000</b>
<i>Current</i>		
Amortised cost:		
Trade and other payables	284,251	316,660
Loans and borrowings	189	2,518
	<u>284,440</u>	<u>319,178</u>
<i>Non-current</i>		
Amortised cost:		
Loans and borrowings	601,733	310,343
	<u>601,733</u>	<u>310,343</u>

At the reporting date there are no significant concentrations of credit risk. The carrying amount reflected above represents the Company's maximum exposure to credit risk for trade and other receivables.

### Financial risk management objectives

The Company'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 Company 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 Company 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 Company's policies approved by the Board, which provide written principles on foreign exchange risk and interest rate risk. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

### Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (Note 4(i)). The Company periodically enters into certain 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; and
- interest rate swaps to mitigate the risk of rising interest rates.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 13. FINANCIAL INSTRUMENTS (CONTINUED)

### Foreign currency risk management

Company 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, which may include utilising forward foreign exchange contracts.

The most significant carrying amounts of monetary assets and monetary liabilities (which include intercompany balances with other subsidiaries) that: (1) are denominated in currencies other than the functional currency of the respective Company subsidiary; and (2) cause foreign exchange rate exposure, at 31 December are as follows:

	Assets		Liabilities	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Australian Dollar	543,182	402,240	39,895	7,972
Canadian Dollar	10,692	7,306	93,889	88,785
Euro	2,515	33,510	93,582	38,326
US Dollar	193,379	206,392	439,146	386,926

### Foreign currency sensitivity

The Company is mainly exposed to exchange rate fluctuations in the Australian Dollar (AUD), Canadian Dollar (CAD), Euro (EUR) and United States Dollar (USD). The Company is also exposed to translation differences as the Company's presentation currency is different from the functional currencies of various subsidiaries. However, this represents a translation risk rather than a financial risk and consequently is not included in the following sensitivity analysis.

The following tables reflect the Company's sensitivity to a 10% change in the exchange rate of each of the currencies listed above. This sensitivity analysis includes only outstanding monetary items denominated in currencies other than the respective subsidiaries' functional currencies and remeasures these at the respective year end to reflect a 10% decrease in the indicated currency against the respective subsidiaries' functional currencies. A positive number indicates an increase in net profit and/or net assets.

	10% change in AUD		10% change in CAD	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Net profit	(1,913)	(586)	4,614	4,745
Net assets	(45,753)	(35,842)	7,563	7,407

	10% change in EUR		10% change in USD	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Net profit	8,279	438	4,090	2,441
Net assets	8,279	438	22,342	16,412

In management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the year-end exposure does not reflect the exposure during the course of the year.

## 13. FINANCIAL INSTRUMENTS (CONTINUED)

### Forward foreign exchange contracts

There were no open forward foreign currency contracts as of 31 December 2012 or 2011.

### Interest rate risk management

The Company is exposed to interest rate risk as entities within the Company borrow funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating-rate borrowings and, from time to time, by the use of interest rate swap contracts. There are no interest rate swaps as of 31 December 2012 (2011 : nil). Hedging activities are evaluated regularly to align with interest rate views and risk tolerance. The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

### Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

During the year, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Company's profit before tax would increase/decrease by \$3,080,000 (2011: decrease/increase by \$170,000) all of which is attributable to the Company's exposure to interest rates on its variable-rate borrowings.

### Credit risk management

The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, when 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 accounts receivable. The Company holds security for a number of trade receivables in the form of letters of credit, deposits, and advanced payments.

The Company 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.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained. See Note 27.

	Maximum credit risk	
	2012	2011
Financial assets and other credit exposures	US\$'000	US\$'000
Performance guarantees provided, including letters of credit	32,459	21,849

### Liquidity risk management

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

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 18 is a list of undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 13. FINANCIAL INSTRUMENTS (CONTINUED)

### Liquidity and interest risk tables

The following tables reflect the expected maturities of non-derivative financial liabilities. These are based on the undiscounted expected cash flows of financial liabilities at the earliest date on which the Company may be required to pay. The table includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount on the balance sheet.

	Weighted average effective interest rate %	Less than 1 month US\$'000	1 to 3 months US\$'000	3 months to 1 year US\$'000	1 - 5 years US\$'000	5+ years US\$'000	Adjust- ment US\$'000	Total US\$'000
<b>2012</b>								
Non-interest bearing payables		184,376	99,875	-	-	-	-	284,251
Finance lease liability	8.0%	17	35	157	67	-	(23)	253
Variable interest rate instruments	2.1%	538	1,075	4,839	321,770	-	(20,222)	308,000
Fixed interest rate instruments	7.0%	1,750	3,500	15,750	84,000	368,351	(173,351)	300,000
		<u>186,681</u>	<u>104,485</u>	<u>20,746</u>	<u>405,837</u>	<u>368,351</u>	<u>(193,596)</u>	<u>892,504</u>
<b>2011</b>								
Non-interest bearing payables		193,360	123,300	-	-	-	-	316,660
Finance lease liability	8.9%	40	80	360	121	-	(65)	536
Variable interest rate instruments	2.2%	32	63	286	18,363	-	(1,744)	17,000
Fixed interest rate instruments	7.0%	1,760	3,520	15,839	86,191	389,408	(194,527)	302,191
		<u>195,192</u>	<u>126,963</u>	<u>16,485</u>	<u>104,675</u>	<u>389,408</u>	<u>(196,336)</u>	<u>636,387</u>



# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 13. FINANCIAL INSTRUMENTS (CONTINUED)

### Liquidity and interest risk tables (continued)

The following tables reflect the expected maturities of non-derivative financial assets. These are based on the undiscounted expected cash flows of the financial assets.

	<b>Less than 1 month US\$'000</b>	<b>1 to 3 months US\$'000</b>	<b>3 months to 1 year US\$'000</b>	<b>Total US\$'000</b>
<b>2012</b>				
Non-interest bearing receivables	144,575	110,840	5,087	260,502
Cash	89,628	-	-	89,628
	<u>234,203</u>	<u>110,840</u>	<u>5,087</u>	<u>350,130</u>
<b>2011</b>				
Non-interest bearing receivables	170,920	125,340	24,496	320,756
Cash	82,286	-	-	82,286
	<u>253,206</u>	<u>125,340</u>	<u>24,496</u>	<u>403,042</u>

The liquidity and interest risk tables are based on the Company's intent to collect the assets or settle the liabilities in accordance with the contractual terms.

### 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 analyses using prices from observable current market transactions.
- The fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analyses using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements materially approximate their fair values.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 14. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings US\$'000	Plant and Equipment US\$'000	Construction in Progress US\$'000	Total US\$'000
Balance at 1 January 2011	45,192	615,078	104,202	764,472
Additions	1,160	47,624	129,117	177,901
Disposal	(922)	(17,485)	-	(18,407)
Transfer to/from CIP	16,251	101,955	(118,206)	-
Currency movements	(405)	(25,678)	(4,228)	(30,311)
<b>Balance at 1 January 2012</b>	<b>61,276</b>	<b>721,494</b>	<b>110,885</b>	<b>893,655</b>
Additions	8,963	106,333	141,343	256,639
Disposal	(2,462)	(26,056)	-	(28,518)
Transfers to assets held for sale	(143)	(53,069)	(500)	(53,712)
Transfer to/from CIP	7,935	188,166	(196,101)	-
Transfer from intangible assets	-	1,179	-	1,179
Currency movements	(128)	11,101	178	11,151
<b>Balance at 31 December 2012</b>	<b>75,441</b>	<b>949,148</b>	<b>55,805</b>	<b>1,080,394</b>
<b>Accumulated depreciation and impairment:</b>				
Balance at 1 January 2011	(9,101)	(315,925)	-	(325,026)
Depreciation	(2,584)	(92,512)	-	(95,096)
Impairment	-	(57)	-	(57)
Disposal	494	15,370	-	15,864
Currency movements	93	18,798	-	18,891
<b>Balance at 1 January 2012</b>	<b>(11,098)</b>	<b>(374,326)</b>	<b>-</b>	<b>(385,424)</b>
Depreciation	(3,321)	(107,670)	-	(110,991)
Impairment	(1,867)	(4,297)	-	(6,164)
Disposal	2,222	22,130	-	24,352
Transfers to assets held for sale	76	34,477	-	34,553
Currency movements	(4)	(8,025)	-	(8,029)
<b>Balance at 31 December 2012</b>	<b>(13,992)</b>	<b>(437,711)</b>	<b>-</b>	<b>(451,703)</b>
<b>Net book value at 31 December 2011</b>	<b>50,178</b>	<b>347,168</b>	<b>110,885</b>	<b>508,231</b>
<b>Net book value at 31 December 2012</b>	<b>61,449</b>	<b>511,437</b>	<b>55,805</b>	<b>628,691</b>

The net book value of property, plant and equipment at 31 December 2012 and 2011 includes amounts of \$6,107,000 and \$1,770,000, respectively, related to assets held under finance leases.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 15. GOODWILL

	<u>US\$'000</u>
<b>Gross carrying amount:</b>	
Balance at 1 January 2011	297,408
Currency movements	(3,345)
<b>Balance at 31 December 2011</b>	<u>294,063</u>
Balance at 1 January 2012	294,063
Impairment loss	(6,839)
Currency movements	3,562
<b>Balance at 31 December 2012</b>	<u>290,786</u>

### Goodwill by cash-generating units

For purposes of impairment testing, goodwill is included in cash-generating units that are significant individually or in aggregate. The carrying amount of goodwill included in cash-generating units, by geographic area, is as follows:

	<u>2012 US\$'000</u>	<u>2011 US\$'000</u>
Argentina	13,572	15,281
Australia	157,427	153,135
Canada	20,255	19,728
Chile	12,776	12,776
Mexico	-	4,710
New Zealand	1,644	1,542
United States of America	85,112	86,891
	<u>290,786</u>	<u>294,063</u>

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.

In its impairment assessment, the Company assumes the recoverable amount based on a value-in-use calculation using cash flow projections based on the Company's three-year strategic plan and financial forecasts over a nine-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 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 8.9% to 20.3%); and
- 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 include:

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

Based on the impairment testing performed, the Company has recognised an impairment loss on goodwill of \$5,060,000 due to the financial performance of a subsidiary.

In addition, goodwill of \$1,779,000 was impaired during the year as a result of the announcement to restructure and divest of the non-mining environmental and infrastructure business.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 16. OTHER INTANGIBLE ASSETS

	Trademarks US\$'000	Patents US\$'000	Customer relationships and other US\$'000	Software US\$'000	Develop- ment assets US\$'000	Total US\$'000
<b>Gross carrying amount:</b>						
Balance at 1 January 2011	3,884	2,947	61,554	47,334	20,720	136,439
Additions	-	1,725	-	23,646	14,935	40,306
Currency movements	-	-	(691)	-	(567)	(1,258)
<b>Balance at 31 December 2011</b>	<b>3,884</b>	<b>4,672</b>	<b>60,863</b>	<b>70,980</b>	<b>35,088</b>	<b>175,487</b>
Balance at 1 January 2012	3,884	4,672	60,863	70,980	35,088	175,487
Additions	340	1,071	1,360	16,413	14,291	33,475
Disposals	(163)	-	(6,253)	(3,871)	-	(10,287)
Transfer to PP&E	-	-	-	-	(1,179)	(1,179)
Transfer to held for sale	-	-	-	-	(588)	(588)
Currency movements	(78)	200	1,267	(2,599)	(222)	(1,432)
<b>Balance at 31 December 2012</b>	<b>3,983</b>	<b>5,943</b>	<b>57,237</b>	<b>80,923</b>	<b>47,390</b>	<b>195,476</b>
<b>Accumulated amortisation:</b>						
Balance at 1 January 2011	(1,010)	(847)	(19,783)	(5,727)	(2,777)	(30,144)
Amortisation for the period	(423)	(267)	(6,165)	(7,940)	(732)	(15,527)
Impairment for the period	-	-	-	-	(393)	(393)
Currency movements	-	-	324	-	96	420
<b>Balance at 31 December 2011</b>	<b>(1,433)</b>	<b>(1,114)</b>	<b>(25,624)</b>	<b>(13,667)</b>	<b>(3,806)</b>	<b>(45,644)</b>
Balance at 1 January 2012	(1,433)	(1,114)	(25,624)	(13,667)	(3,806)	(45,644)
Amortisation for the period	-	(395)	(6,147)	(9,200)	(710)	(16,452)
Disposals	163	-	6,253	3,871	-	10,287
Transfer to held for sale	-	-	-	-	175	175
Impairment for the period	-	-	(3,446)	(3,647)	(8,461)	(15,554)
Currency movements	-	2	(1,096)	(213)	1,177	(130)
<b>Balance at 31 December 2012</b>	<b>(1,270)</b>	<b>(1,507)</b>	<b>(30,060)</b>	<b>(22,856)</b>	<b>(11,625)</b>	<b>(67,318)</b>
<b>Net book value at 31 December 2011</b>	<b>2,451</b>	<b>3,558</b>	<b>35,239</b>	<b>57,313</b>	<b>31,282</b>	<b>129,843</b>
<b>Net book value at 31 December 2012</b>	<b>2,713</b>	<b>4,436</b>	<b>27,177</b>	<b>58,067</b>	<b>35,765</b>	<b>128,158</b>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 17. TRADE AND OTHER PAYABLES

	2012 US\$'000	2011 US\$'000
<b>Current</b>		
Trade payables	160,076	173,936
Accrued payroll and benefits	46,928	59,492
Goods and services tax payable	27,105	25,421
Accrued drilling costs	4,916	10,013
Accrued legal and environmental	7,468	6,202
Accrued interest	5,632	5,446
Professional fees	6,067	5,331
Other sundry payables and accruals	26,059	30,819
	<u>284,251</u>	<u>316,660</u>

The average credit period on purchases of certain goods is 43 days (2011: 42 days). No interest is charged on the trade payables for this period. Thereafter, various percentages of interest may be charged on the outstanding balance based on the terms of the specific contracts. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 18. LOANS AND BORROWINGS

	2012 US\$'000	2011 US\$'000
<b>Unsecured - at amortised cost</b>		
<i>Current</i>		
Bank loans	-	2,191
<i>Non-current</i>		
Senior notes	300,000	300,000
Revolver bank loans	308,000	17,000
Debt issuance costs	(6,331)	(6,866)
<b>Secured - at amortised cost</b>		
<i>Current - finance lease liabilities</i>	189	327
<i>Non-current - finance lease liabilities</i>	64	209
	<u>601,922</u>	<u>312,861</u>
Disclosed in the financial statements as:		
Current borrowings	189	2,518
Non-current borrowings	601,733	310,343
	<u>601,922</u>	<u>312,861</u>
A summary of the maturity of the Company's borrowings is as follows:		
Less than 1 year	189	2,518
Between 1 and 2 years	64	197
Between 2 and 3 years	-	13
Between 3 and 4 years	306,470	-
More than 4 years	295,199	310,133
	<u>601,922</u>	<u>312,861</u>

## 18. LOANS AND BORROWINGS (CONTINUED)

### Senior notes

The Company has \$300,000,000 of senior unsecured notes at an interest rate of 7% with a scheduled maturity date of 1 April 2021. The Company may redeem all or a portion of the notes prior to maturity subject to certain conditions, including in certain cases the payment of premiums or make-whole amounts. Guarantors of the senior notes are the same as the \$350,000,000 revolver bank loan facility described below.

### Revolver bank loans

The bank facility includes a \$350,000,000 revolving bank loan which was increased on 31 July 2012 from an aggregate principal amount of \$250,000,000. As of 31 December 2012 and 2011 the amount drawn was \$308,000,000 and \$17,000,000 respectively. Interest rates on borrowings are based on a base rate plus an applicable margin. The base rate is generally based on either 30-day USD LIBOR or the prime rate as determined by Bank of America, while the margin is determined based on leverage according to a pricing grid. \$288,000,000 and \$15,000,000 of the borrowings as at 31 December 2012 and 2011, were based on 30-day LIBOR at the time of draws (between 0.210% and 0.215% for 31 December 2012 and between 0.27% and 0.30% for 31 December 2011) plus a margin of 1.75%, for a weighted average interest rate of 1.96% and 2.03% for 31 December 2012 and 2011, respectively. \$20,000,000 and \$2,000,000 of the borrowings as at 31 December 2012 and 2011 were based on the prime rate of 3.25% plus a margin of 0.75% for a total interest rate of 4.0%. The scheduled maturity date is 29 July 2016.

The revolving bank loan was increased by \$100,000,000, to an aggregate amount of \$450,000,000, on 15 February 2013. A required reduction of \$50 million of commitments will occur 18 months after the closing date of the amendment, 15 August 2014, bringing the total outstanding commitments at that time to \$400 million. All other material terms and conditions of the revolving credit agreement, including covenants, maturity and pricing, remain unchanged.

Outstanding letters of credit of \$2,305,000 as of 31 December 2012 and 2011, reduce the amount available to draw under the revolvers.

### Covenants – revolver bank loans and senior notes

The Company's revolver contains covenants and restrictions requiring the Company to meet certain financial ratios and reporting requirements, as well as minimum levels of subsidiaries that are guarantors of the borrowings. This includes maintaining a gross debt to EBITDA ratio of not more than 3.5:1, and an EBITDA to interest ratio of not less than 3.0:1. The agreement also requires that borrowers and guarantors represent at least 60% of Company EBITDA and total tangible assets of the Company.

Prior to the Company engaging in certain activities, including incurring additional indebtedness, the Company is subject to specific covenants, which contain specified exceptions and qualifications.

See Note 27 for a list of subsidiary guarantors which guarantee one or more of the debt facilities. Testing of covenant compliance takes place twice-yearly for the trailing 12 month periods to 30 June and 31 December. Non-compliance with one or more of the covenants and restrictions could result in the full or partial principal balance of the associated debt becoming immediately due and payable. The Company is in compliance with the debt covenants as at 31 December 2012 and 2011 as well as 30 June 2012 and 2011.

The indenture governing the senior notes includes covenants that restrict the Company's ability to engage in certain activities, including incurring additional indebtedness and paying dividends, subject in each case to specified exceptions and qualifications. The senior notes also include certain provisions including those similar to the bank revolver, but do not include testing of financial ratios.

### Finance leases

The finance lease liabilities were assumed largely as part of acquiring certain businesses prior to 2008. The leases are secured by the assets leased. The borrowings have interest rates ranging from 7.65% to 8.07%, with repayment periods not exceeding two years.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 19. PROVISIONS

	2012 US\$'000	2011 US\$'000
<b>Current</b>		
Employee benefits	22,018	19,871
Restructuring and termination costs <sup>1</sup>	8,765	1,044
Warranty <sup>2</sup>	223	715
Onerous leases	5,265	656
	<u>36,271</u>	<u>22,286</u>
<b>Non-current</b>		
Employee benefits	3,753	4,510
Pension and post-retirement benefits (Note 20)	80,422	69,078
Onerous leases	3,459	-
	<u>87,634</u>	<u>73,588</u>
	<u>123,905</u>	<u>95,874</u>

The changes in the provisions for the year ended 31 December 2012 are as follows:

	Restructuring and termination costs <sup>1</sup> US\$'000	Warranty <sup>2</sup> US\$'000	Onerous lease costs <sup>3</sup> US\$'000
Balance at 1 January 2012	1,044	715	656
Additional provisions recognised	12,452	92	8,694
Reductions arising from payments	(4,322)	(88)	-
Reductions resulting from remeasurement	(349)	(486)	(626)
Foreign exchange	(60)	(10)	-
Balance at 31 December 2012	<u>8,765</u>	<u>223</u>	<u>8,724</u>

- (1) The provision for restructuring and termination costs represents the present value of management's best estimate of the costs directly and necessarily caused by the restructuring that are not associated with the ongoing activities of the entity, including termination benefits.
- (2) The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Company's warranty program.
- (3) Includes current and non-current.

## 20. PENSION AND POST-RETIREMENT BENEFITS

### Pension and post-retirement medical commitments

The Company operates defined contribution and defined benefit pension plans for the majority of its employees. It also operates post-retirement medical arrangements in North America. The policy for accounting for pensions and post-retirement benefits is included in Note 4(m).

The assets of the defined contribution plans are held separately in independently administered funds. The charge in respect of these plans is calculated on the basis of contributions payable by the Company during the fiscal year.

The majority of the defined benefit pension plans are funded in accordance with minimum funding requirements by local regulators. The assets of these plans are held separately from those of the Company, in independently administered funds, in accordance with statutory requirements or local practice throughout the world.

The post-retirement medical arrangements provide health benefits to retired employees and certain dependants. Eligibility for coverage is dependent upon certain criteria. Most of these plans are unfunded and have been provided for by the Company.

### Defined contribution plans

Pension costs represent actual contributions paid or payable by the Company to the various plans. At 31 December 2012, and 2011, there were no significant outstanding/prepaid contributions. Company contributions to these plans were \$23,863,000 and \$21,175,000 for the years ended 31 December 2012 and 2011, respectively.

The Company's operations in the Netherlands participate in an industry-wide pension scheme for the mechanical and electrical engineering industries, known as the PME Fund. Although it is a defined benefit pension plan, the participating employers have no obligation other than to pay set contributions based on benefits accrued by the employees every period. The employers are not obligated to make additional payments to fund deficits, nor have they any right to repayments in the event of surpluses. The Company treats the PME scheme as a defined contribution plan.

### Defined benefit pension plans

Full actuarial valuations of the defined benefit pension plans were performed as of various dates and updated to 31 December 2012 by qualified independent actuaries. The estimated market value of the assets of the funded pension plans was \$191,207,000 and \$173,776,000 at 31 December 2012, and 2011, respectively. The market value of assets was used to determine the funding level of the plans. The market value of the assets of the funded plans was sufficient to cover 77% in both 2012 and 2011, of the benefits that had accrued to participants after allowing for expected increases in future earnings and pensions. Entities within the Company are paying contributions as required by statutory requirements and in accordance with local actuarial advice.

As the majority of the defined benefit pension plans are closed to new participants, it is expected that under the projected unit credit method, service cost will increase as the participants age.

Company contributions to these plans were \$11,065,000 and \$9,612,000 in the years ended 31 December 2012 and 2011, respectively. Contributions in 2013 are expected to be \$9,012,000.



# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 20. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

The principal assumptions used to determine the actuarial present value of benefit obligations and pension costs are detailed below (shown in weighted averages):

	2012		2011		Southern Africa <sup>1</sup>
	North America	Europe	North America	Europe	
Discount rates	4.0%	3.4%	4.5%	4.8%	-
Expected average rate of increase in salaries	3.5%	4.0%	3.8%	4.0%	-
Expected average rate of increase of pensions in payment	-	1.5%	-	1.5%	-
Expected average long-term rate of return on plan assets <sup>2</sup>	-	-	7.1%	4.2%	-
Expected average increase in healthcare costs (initial)	7.4%	-	8.0%	-	-
Expected average increase in healthcare costs (ultimate)	5.0%	-	5.0%	-	-

(1) The Southern Africa pension and post-retirement medical plans were settled with participants in 2008. The majority of the members elected to transfer to the Alexander Forbes Retirement Fund, leaving only one member in the plan. In December 2011, the Company received payment from the plan representing the net pension assets.

(2) Under the revised AASB 119 'Employee Benefits' which is applicable for reporting periods starting on or after 1 January 2013, the return on asset will now be calculated using the same discount rate applied to liabilities rather than the expected investment return with the difference taken to Other Comprehensive Income.

Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:

	2012			2011		
	Pension plan	Post-retirement medical plan	Total	Pension plan	Post-retirement medical plan	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Current service cost	2,096	940	3,036	1,862	769	2,631
Interest cost on plan liabilities	10,199	843	11,042	11,081	803	11,884
Past service cost	(207)	-	(207)	-	-	-
Expected return on plan assets	(11,063)	-	(11,063)	(13,409)	-	(13,409)
Total charge (credit) to profit and loss account	1,025	1,783	2,808	(466)	1,572	1,106

For the financial years ended 31 December 2012 and 2011, charges of approximately \$2,608,000 and \$932,000, respectively, have been included in cost of goods sold and the remainder in general and administrative or sales and marketing expenses.

The following amounts have been recognised in the statement of comprehensive income.

	2012			2011		
	Pension plan	Post-retirement medical plan	Total	Pension plan	Post-retirement medical plan	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Actuarial losses during the year, net of taxes	15,864	496	16,360	18,456	1,090	19,546

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 20. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

The amount included in the balance sheet arising from the Company's obligations in respect of defined benefit plans is as follows:

	2012			2011		
	Pension plan US\$'000	Post- retirement medical plan US\$'000	Total US\$'000	Pension plan US\$'000	Post- retirement medical plan US\$'000	Total US\$'000
Present value of funded defined benefit obligations	246,789	-	246,789	221,041	-	221,041
Fair value of plan assets	(191,207)	-	(191,207)	(173,776)	-	(173,776)
	55,582	-	55,582	47,265	-	47,265
Present value of unfunded defined benefit obligations	5,742	19,098	24,840	4,575	17,238	21,813
Deficit	61,324	19,098	80,422	51,840	17,238	69,078
Net liability arising from defined benefit obligations	61,324	19,098	80,422	51,840	17,238	69,078

Changes in the present value of the defined benefit obligations were as follows:

	2012			2011		
	Pension plan US\$'000	Post- retirement medical plan US\$'000	Total US\$'000	Pension plan US\$'000	Post- retirement medical plan US\$'000	Total US\$'000
Opening defined benefit obligation	225,616	17,238	242,854	209,750	14,879	224,629
Current service cost	2,096	940	3,036	1,862	769	2,631
Interest cost	10,199	843	11,042	11,081	803	11,884
Contributions from plan participants	-	423	423	-	434	434
Actuarial losses	23,264	799	24,063	17,510	1,752	19,262
Past service cost	(207)	-	(207)	-	-	-
Exchange differences on foreign plans	4,077	15	4,092	(4,414)	(12)	(4,426)
Benefits paid	(12,514)	(1,279)	(13,793)	(10,173)	(1,387)	(11,560)
Federal subsidy on benefits paid	-	119	119	-	-	-
Closing defined benefit obligation	252,531	19,098	271,629	225,616	17,238	242,854

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 20. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

Changes in the fair value of plan assets were as follows:

	2012			2011		
	Post-			Post-		
	Pension plan	retirement medical plan	Total	Pension plan	retirement medical plan	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Opening fair value plan of assets	173,776	-	173,776	194,620	-	194,620
Expected return on plan assets	11,063	-	11,063	13,409	-	13,409
Actuarial gains (losses)	4,615	-	4,615	(8,520)	-	(8,520)
Exchange differences on foreign plans	3,202	-	3,202	(5,155)	-	(5,155)
Contributions from the employer	11,065	856	11,921	9,612	953	10,565
Distribution of assets from settled plan	-	-	-	(20,017)	-	(20,017)
Contributions from plan participants	-	423	423	-	434	434
Benefits paid	(12,514)	(1,279)	(13,793)	(10,173)	(1,387)	(11,560)
Closing fair value of plan assets	191,207	-	191,207	173,776	-	173,776

The analysis of the plan assets and the expected rate of return at the balance sheet date are as follows:

	2012				
	North America		Europe		Total fair value
	Rate of return % <sup>1</sup>	Fair value US\$'000	Rate of return % <sup>1</sup>	Fair value US\$'000	
<b>At 31 December 2012</b>					
Equity	-	81,124	-	17,749	98,873
Bonds	-	55,782	-	30,116	85,898
Property	-	-	-	1,319	1,319
Cash	-	4,302	-	403	4,705
Other	-	338	-	74	412
		141,546		49,661	191,207

- (1) Under the revised AASB 119 'Employee Benefits' which is applicable for reporting periods starting on or after 1 January 2013, the return on asset will now be calculated using the same discount rate applied to liabilities rather than the expected investment return with the difference taken to Other Comprehensive Income.

	2011						
	North America		Europe		Southern Africa		Total fair value
	Rate of return %	Fair value US\$'000	Rate of return %	Fair value US\$'000	Rate of return %	Fair value US\$'000	
<b>At 31 December 2011</b>							
Equity	9.0%	59,418	6.8%	15,963	-	-	75,381
Bonds	4.6%	60,498	2.5%	25,187	-	-	85,685
Property	-	-	4.8%	1,544	-	-	1,544
Cash	3.4%	6,794	1.4%	215	-	2,017	9,026
Other	3.4%	2,140	-	-	-	-	2,140
	7.1%	128,850	4.2%	42,909	-	2,017	173,776

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 20. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

The pension and post-retirement deficit by geographic region are as follows:

	31 December 2012			31 December 2011			
	North America	Europe	Total	North America	Europe	Southern Africa	Total
Post-retirement medical plan deficit	19,098	-	19,098	17,238	-	-	17,238
Pension plan deficit	36,625	24,699	61,324	36,298	15,542	-	51,840
Total deficit	55,723	24,699	80,422	53,536	15,542	-	69,078

On 8 December 2003, the Medicare Prescription Drug Improvement and Modernisation Act of 2003 was signed into law in the US. The Act introduced a prescription drug benefit beginning 2006 under Medicare ("Medicare Part D") as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Based on an actuarial analysis of the levels of benefits provided under the Company's Post-retirement Welfare Plan, the plan's actuary has concluded that beneficiaries receive drug coverage at least actuarially equivalent to Medicare Part D. The federal subsidy was reflected in costs, reducing the accumulated post-retirement benefit obligation by approximately \$1,389,000 and \$930,000 at 31 December 2012 and 2011, respectively. The expense was reduced by approximately \$53,000 and \$49,000 at 31 December 2012 and 2011, respectively.

	2012			2011		
	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000
Fair value of plan assets	191,207	-	191,207	173,776	-	173,776
Present value of defined benefit obligation	(252,531)	(19,098)	(271,629)	(225,616)	(17,238)	(242,854)
Deficit	(61,324)	(19,098)	(80,422)	(51,840)	(17,238)	(69,078)
Experience adjustments on plan liabilities	3,341	605	3,946	141	85	226
Experience adjustments on plan assets	4,615	-	4,615	(8,520)	-	(8,520)

	2010			2009		
	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000	Pension plan US\$'000	Post-retirement medical plan US\$'000	Total US\$'000
Fair value of plan assets	194,620	-	194,620	178,854	-	178,854
Present value of defined benefit obligation	(209,750)	(14,879)	(224,629)	(193,355)	(10,488)	(203,843)
Deficit	(15,130)	(14,879)	(30,009)	(14,501)	(10,488)	(24,989)
Experience adjustments on plan liabilities	(643)	106	(537)	(570)	(166)	(736)
Experience adjustments on plan assets	3,867	-	3,867	13,345	-	13,345

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 20. PENSION AND POST-RETIREMENT BENEFITS (CONTINUED)

	2008		
	Post-		
	Pension plan US\$'000	retirement medical plan US\$'000	Total US\$'000
Fair value of plan assets	150,626	-	150,626
Present value of defined benefit obligation	(171,312)	(9,411)	(180,723)
Deficit	(20,686)	(9,411)	(30,097)
Experience adjustments on plan liabilities	(635)	63	(572)
Experience adjustments on plan assets	(49,714)	-	(49,714)

Assumed healthcare cost trend rates have a significant effect on the amounts recognised in profit or loss. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	2012 US\$'000	2011 US\$'000
<i>One percentage point increase</i>		
Effect on the aggregate of the service cost and interest cost	254	211
Effect on accumulated post-employment benefit obligation	2,462	2,133
<i>One percentage point decrease</i>		
Effect on the aggregate of the service cost and interest cost	(216)	(180)
Effect on accumulated post-employment benefit obligation	(2,072)	(1,808)

## 21. ISSUED CAPITAL

	2012		2011	
	Shares '000	US\$'000	Shares '000	US\$'000
Share capital				
Ordinary shares, fully paid	454,710	1,122,189	455,755	1,128,923
Movements in ordinary shares				
Balance at beginning of year	455,755	1,128,923	457,129	1,132,051
Vesting of LTIP rights, restricted shares	1,597	2,435	322	5,204
Purchase of shares for LTIP	(2,642)	(9,169)	(1,696)	(8,332)
Balance at end of the year	454,710	1,122,189	455,755	1,128,923
Total shares outstanding	461,163	1,146,804	461,163	1,147,676
Shares held in trust	(6,453)	(24,615)	(5,408)	(18,753)
Balance at end of the year	454,710	1,122,189	455,755	1,128,923

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 22. RESERVES

	2012 US\$'000	2011 US\$'000
Foreign currency translation	56,658	50,334
Equity-settled employee benefits	14,256	9,333
	<u>70,914</u>	<u>59,667</u>

During the years ended 31 December 2012 and 2011, the changes in each of the respective reserve accounts were as follows:

	2012 US\$'000	2011 US\$'000
<b>Foreign currency translation</b>		
Balance at beginning of year	50,334	76,421
Exchange differences arising on translation of foreign operations	6,324	(26,087)
Balance at end of year	<u>56,658</u>	<u>50,334</u>

Exchange differences relating to the translation from various functional currencies of the Company's subsidiaries into United States dollars are brought to account by entries made directly to the foreign currency translation reserve.

	2012 US\$'000	2011 US\$'000
<b>Equity-settled employee benefits</b>		
Balance at beginning of year	9,333	8,415
Share-based compensation	7,358	6,122
Vesting of LTIP rights	(2,435)	(5,204)
Balance at end of year	<u>14,256</u>	<u>9,333</u>

The equity-settled employee benefits reserve is recognised over the vesting period of restricted shares, LTIP rights and share options. Amounts are transferred out of the reserve and into issued capital when the shares are issued.

	2012 US\$'000	2011 US\$'000
<b>Unrealised losses related to hedging instruments</b>		
Balance at beginning of year	-	(259)
Unrealised gain on cash flow hedges	-	193
Transfer to profit or loss on cash flow hedges	-	137
Related income tax	-	(71)
Balance at end of year	<u>-</u>	<u>-</u>

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 23. RETAINED EARNINGS

During the years ended 31 December 2012 and 2011, the changes in retained earnings consist of:

	2012 US\$'000	2011 US\$'000
Balance at beginning of year	83,032	(19,477)
Profit for the period attributable to equity holders of the Parent	68,164	159,871
Dividends paid	(55,340)	(37,816)
Actuarial losses on defined benefit plans (net of tax)	(16,360)	(19,546)
Balance at end of year	79,496	83,032

## 24. DIVIDENDS

Dividends declared and paid during the year ended 31 December 2012 are as follows:

	2012	
	US cents per share	Total US\$'000
<b>Fully paid ordinary shares</b>		
Final 2011 dividend 15% franked	5.6	25,826
Interim 2012 dividend 15% franked	6.4	29,514
	12.0	55,340

	2011	
	US cents per share	Total US\$'000
<b>Fully paid ordinary shares</b>		
Final 2010 dividend 35% franked	3.4	15,679
Interim 2011 dividend 35% franked	4.8	22,137
	8.2	37,816

On 18 February 2013, the Directors determined to pay a dividend of US 1.0 cent per share (for a total of approximately \$4,611,000) for the second half of 2012. The dividend is expected to be paid on 12 April 2013 to shareholders of record on 15 March 2013. The dividend will be 35% franked at the Australian corporate taxation rate of 30%. All of the unfranked portion of the dividend will be conduit foreign income. The dividend is not included as a liability in the 31 December 2012 financial statements. Franking credits available after payment of this dividend will be \$7,162,000.

Below is the combined amount of franking credits available for the next year:

	2012 US\$'000	2011 US\$'000
Adjusted combined franking balance	7,853	7,437

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 25. EARNINGS PER SHARE

	2012 US cents per share	2011 US cents per share
Basic earnings per share	15.0	35.1
Diluted earnings per share	14.8	34.8
<b>Basic earnings per share</b>		
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
	2012 US\$'000	2011 US\$'000
Earnings used in the calculation of basic EPS	68,164	159,871
	2012 '000	2011 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	454,862	456,117
<b>Diluted earnings per share</b>		
The earnings used in the calculation of diluted earnings per share are as follows:		
	2012 US\$'000	2011 US\$'000
Earnings used in the calculation of diluted EPS	68,164	159,871
	2012 '000	2011 '000
Weighted average number of ordinary shares used in the calculation of basic EPS	454,862	456,117
Shares deemed to be issued for no consideration in respect of:		
LTIP share rights	4,917	2,856
Options	-	39
Weighted average number of ordinary shares used in the calculation of diluted EPS	459,779	459,012



# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 26. COMMITMENTS FOR EXPENDITURE

### Commitments

The Company has a number of continuing operational and financial commitments in the normal course of business.

	<b>2012</b> <b>US\$'000</b>	<b>2011</b> <b>US\$'000</b>
<b>Capital commitments</b>		
Purchase commitments for capital expenditures	10,857	13,631

Non-cancellable future operating lease commitments as at 31 December 2012 and 2011 consist of the following:

	<b>31 December 2012</b>		<b>31 December 2011</b>	
	<b>Land and buildings US\$'000</b>	<b>Plant and equipment US\$'000</b>	<b>Land and buildings US\$'000</b>	<b>Plant and equipment US\$'000</b>
<b>Payments due within:</b>				
1 year	15,603	12,086	15,536	17,121
2 to 5 years	32,483	11,601	34,172	24,616
After 5 years	6,740	-	12,166	-
	<b>54,826</b>	<b>23,687</b>	<b>61,874</b>	<b>41,737</b>

### Description of operating leases

The Company has operating leases for land, buildings, plant and equipment with the following lease terms:

- 1 – 30 years for land and buildings with an average lease term of seven years
- 1 – 5 years for machinery and equipment with an average lease term of three years
- 1 – 7 years for all other property with an average lease term of three years

The Company's property operating leases generally contain escalation clauses, which are fixed increases generally between 3% and 9%, or increase subject to a national index. The Company does not have any significant purchase options.

Contingent rental payments exist for certain pieces of equipment and are not significant compared with total rental payments. These are based on excess wear and tear and excess use.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 27. CONTINGENT LIABILITIES

### Letters of credit

Standby letters of credit primarily issued in support of commitments or other obligations as at 31 December 2012 are as follows:

- The Company's subsidiary in Zambia has a letter of credit in the amount of \$1,900,000 to support products inventory, which expires December 2013.
- The Company's subsidiary in the US has a letter of credit in the amount of \$405,000 to secure a worker's compensation program which expires January 2013.

A summary of the maturity of issued letters of credit is as follows:

	2012 US\$'000	2011 US\$'000
Less than 1 year	2,305	1,900
1 to 3 years	-	405
	<u>2,305</u>	<u>2,305</u>

### Guarantees

The subsidiaries of the Company provide guarantees within the normal course of business which includes payment guarantees to cover import duties, taxes, performance and completion of contracts. In addition, the Parent and certain subsidiaries are guarantors on the Company's loans and borrowings.

A summary of the Company's subsidiaries which are guarantors of the Company's long-term debt is as follows:

Country	Entity
Canada	Longyear Canada ULC Boart Longyear Canada
United States	Longyear Holdings, Inc. Longyear TM, Inc. Boart Longyear Company Boart Longyear Nevada
Australia	Boart Longyear Limited Boart Longyear Management Pty Limited Votrant No. 1609 Pty Limited Boart Longyear Australia Pty Limited
Switzerland	Votrant Switzerland SARL

### Legal contingencies

The Company is subject to certain routine legal proceedings that arise in the normal course of its business. Management 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 Company'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.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 27. CONTINGENT LIABILITIES (CONTINUED)

### Tax and Customs Audits

The Company is subject to certain tax and customs audits that arise in the normal course of its business. Management believes that the ultimate amount of liability, if any, for any pending assessments (either alone or combined) would not materially affect the Company's operations, liquidity, or financial position taken as a whole. However, the ultimate outcome of these audits are uncertain, and unfavourable outcomes could have a material adverse impact. See additional disclosure in Note 9.

### Other contingencies

Other contingent liabilities as at 31 December 2012 and 2011 consist of the following:

	<b>2012</b> <b>US\$'000</b>	<b>2011</b> <b>US\$'000</b>
<b>Contingent liabilities</b>		
Guarantees/counter-guarantees to outside parties	30,154	19,544

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 28. PARENT ENTITY DISCLOSURES

### Financial position

	2012 US\$'000	2011 US\$'000
<b>Assets</b>		
Current assets	821,946	802,449
Non-current assets	1,330,440	2,232,744
<b>Total assets</b>	<b>2,152,386</b>	<b>3,035,193</b>
<b>Liabilities</b>		
Current liabilities	149,574	111,154
Non-current liabilities	1,238	214
<b>Total liabilities</b>	<b>150,812</b>	<b>111,368</b>
<b>Net Assets</b>	<b>2,001,574</b>	<b>2,923,825</b>
<b>Equity</b>		
Issued capital	2,886,462	2,886,462
Reserves	464	7,643
(Accumulated losses) Retained earnings	(885,352)	29,720
<b>Total equity</b>	<b>2,001,574</b>	<b>2,923,825</b>

### Financial performance

	2012 US\$'000	2011 US\$'000
(Loss) Profit for the year	(859,732)	34,556
Other comprehensive income	-	-
<b>Total comprehensive (loss) income</b>	<b>(859,732)</b>	<b>34,556</b>

During the year, Boart Longyear Limited recorded a provision against intercompany accounts of \$900,000,000. This provision has no impact on the consolidated financial statements.

### Guarantees entered into by the parent entity in relation to debts of its subsidiaries

As of 31 December 2012 and 2011 Boart Longyear Limited has not entered into any deed of cross guarantee with any of its wholly-owned subsidiaries, other than as described in Note 27.

### Contingent liabilities

As of 31 December 2012 and 2011 Boart Longyear Limited did not have any contingent liabilities.

### Contractual obligations

As of 31 December 2012 and 2011 Boart Longyear Limited did not have any contractual obligations.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 29. COMPANY SUBSIDIARIES

The Company's percentage ownership of the principal subsidiaries follows:

Subsidiaries	Country of incorporation	Business	31 Dec 2012	31 Dec 2011
A.C.N. 066 301 531 Pty Ltd	Australia	Tools and Equipment	100	100
Aqua Drilling & Grouting Pty Ltd.	Australia	Drilling Services	100	100
BLI Zambia Ltd.	Zambia	Drilling Services	100	100
BLY Gabon S.A.	Gabon	Drilling Services	100	100
BLY Ghana Limited	Ghana	Drilling Services	100	100
BLY Mali S.A.	Mali	Drilling Services	100	100
BLY Mexico Servicios S.A. de C.V.	Mexico	Drilling Services	100	100
BLY Senegal S.A.	Senegal	Drilling Services	100	100
BLY Sierra Leone Ltd.	Senegal	Drilling Services	100	100
Boart Longyear (Cambodia) Ltd.	Cambodia	Drilling Services	100	100
Boart Longyear (D.R.C.) SPRL	Dem. Rep. of Congo	Drilling Products and Services	100	100
Boart Longyear (Holdings) Ltd.	United Kingdom	Holding Company	100	100
Boart Longyear (Hong Kong) Limited	Hong Kong	Drilling Services	100	100
Boart Longyear (Investments) Ltd.	United Kingdom	Dormant	100	100
Boart Longyear (NZ) Limited	New Zealand	Drilling Services	100	100
Boart Longyear (Pty) Ltd	Botswana	Drilling Products	100	100
Boart Longyear (Vic) No. 1 Pty Ltd (Australia)	Australia	Holding Company	100	100
Boart Longyear (Vic) No. 2 Pty Ltd (Australia)	Australia	Holding Company	100	100
Boart Longyear Alberta Limited	Canada	Holding Company	100	100
Boart Longyear Argentina S.A.	Argentina	Drilling Services	100	100
Boart Longyear Australia Holdings Pty Limited	Australia	Holding Company	100	100
Boart Longyear Australia Pty Ltd	Australia	Drilling Services	100	100
Boart Longyear Bermuda Limited	Bermuda	Holding Company	100	100
Boart Longyear Burkina Faso Sarl	Burkina Faso	Drilling Services	100	100
Boart Longyear BV	Netherlands	Drilling Products	100	100
Boart Longyear Canada	Canada	Drilling Products and Services	100	100
Boart Longyear Chile Limitada	Chile	Drilling Products and Services	100	100
Boart Longyear Colombia S.A.S.	Colombia	Drilling Services	100	100
Boart Longyear Company	USA	Tools, Equipment and Drilling	100	100
Boart Longyear Cote d'Ivoire S.A.	Ivory Coast	Drilling Services	100	100
Boart Longyear Consolidated Holdings, Inc.	USA	Holding Company	100	100
Boart Longyear de Mexico, S.A. de C.V.	Mexico	Drilling Services	100	100
Boart Longyear Drilling and Products Mexico, S.A. de C.V.	Mexico	Drilling Products and Services	100	100
Boart Longyear Drilling Private Limited Company	Ethiopia	Drilling Services	100	100
Boart Longyear Drilling Products Company (Wuxi) Ltd.	China	Drilling Products and Services	100	100
Boart Longyear Drilling Services KZ LLP	Kazakhstan	Drilling Services	100	100
Boart Longyear EMEA Cooperatief U.A.	Netherlands	Holding Company	100	100
Boart Longyear EMEA UK Holdings Ltd	United Kingdom	Holding Company	100	100
Boart Longyear Eritrea Ltd.	Eritrea	Drilling Services	100	100
Boart Longyear Financial Services SARL	Switzerland	Products	100	100
Boart Longyear Global Holdco, Inc	USA	Holding Company	100	100
Boart Longyear GmbH & Co Kg	Germany	Drilling Products and Services	100	100
Boart Longyear Guinea S.A. <sup>1</sup>	Guinea	Drilling Services	100	-
Boart Longyear Holdings (Thailand) Co., Ltd.	Thailand	Drilling Services	100	100
Boart Longyear India Private Ltd	India	Tools and Equipment	100	100
Boart Longyear International BV	Netherlands	Holding Company	100	100
Boart Longyear International Holdings, Inc.	USA	Holding Company	100	100
Boart Longyear Investments Pty Ltd	Australia	Holding Company	100	100
Boart Longyear Liberia Corporation	Liberia	Drilling Services	100	100
Boart Longyear Limitada	Brazil	Drilling Products	100	100
Boart Longyear Limited	Ireland	Drilling Products	100	100
Boart Longyear Limited	Laos	Drilling Services	100	100
Boart Longyear Limited	Thailand	Drilling Services	100	100

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 29. COMPANY SUBSIDIARIES (CONTINUED)

Subsidiaries	Country of incorporation	Business	31 Dec 2012	31 Dec 2011
Boart Longyear LLC	Russia Federation	Drilling Services	100	100
Boart Longyear Ltd	Ghana	Dormant	100	100
Boart Longyear Madagascar S.A.	Madagascar	Drilling Services	100	100
Boart Longyear Mali Products S.A. <sup>1</sup>	Mali	Products	100	-
Boart Longyear Management Pty Ltd	Australia	Holding Company	100	100
Boart Longyear Netherlands BV	Netherlands	Holding Company	100	100
Boart Longyear Nevada	USA	Drilling Services	100	100
Boart Longyear Poland Spolka Z.o.o.	Poland	Drilling Products and Services	100	100
Boart Longyear Products KZ LLP	Kazakhstan	Drilling Products	100	100
Boart Longyear RUS	Russia Federation	Drilling Services	100	100
		Tools, Equipment and Drilling Services		
Boart Longyear S.A.	Chile	Services	100	100
Boart Longyear S.a.r.l.	France	Holding Company	100	100
Boart Longyear SAC	Peru	Drilling Products and Services	100	100
Boart Longyear Saudi Arabia LLC <sup>1</sup>	Saudi Arabia	Drilling Services	100	-
Boart Longyear Vermögensverwaltung GmbH	Germany	Dormant	100	100
Boart Longyear Zambia Ltd.	Zambia	Drilling Services	100	100
Cooperatief Longyear Holdings UA	Netherlands	Holding Company	100	100
Drillcorp Pty Ltd	Australia	Drilling Services	100	100
Dongray Industrial Limited	United Kingdom	In Liquidation	100	100
Geoserv Pesquisas Geologicas S.A.	Brazil	Drilling Services	100	100
Grimwood Davies Pty Ltd	Australia	Drilling Services	100	100
Inavel S.A.	Uruguay	Drilling Services	100	100
J&T Servicios, S.C.	Mexico	Drilling Services	100	100
Longyear Calulo Holdings BV	Netherlands	Drilling Services	100	100
Longyear Canada, ULC	Canada	Tools and Equipment Services	100	100
Longyear Global Holdings, Inc.	USA	Holding Company	100	100
Longyear Holdings New Zealand, Ltd.	New Zealand	Holding Company	100	100
Longyear Holdings, Inc.	USA	Holding Company	100	100
Longyear South Africa (Pty) Ltd	South Africa	Drilling Products and Services	100	100
Longyear TM, Inc.	USA	Holding Company	100	100
North West Drilling Pty Limited	Australia	Drilling Services	100	100
P.T. Boart Longyear	Indonesia	Drilling Services	100	100
Patagonia Drill Mining Services S.A.	Argentina	Drilling Services	100	100
Portezuelo S.A.	Paraguay	Drilling Services	100	100
Professional Sonic Drillers (Pty) Limited T/A Prosonic Africa	South Africa	Dormant	100	100
Prosonic Corporation	USA	Drilling Services	100	100
Prosonic International, Inc.	USA	Drilling Services	100	100
Votrant No. 1609 Pty Ltd	Australia	Drilling Services	100	100
Votrant Switzerland SARL	Switzerland	Holding Company	100	100

(1) This entity was formed in 2012.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 30. NOTES TO THE CASH FLOW STATEMENT

### (a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

	2012 US\$'000	2011 US\$'000
Cash and cash equivalents	89,628	82,286

### (b) Businesses acquired

During the financial years ended 31 December 2012 and 2011 there were no business acquisitions.

### (c) Businesses disposed

During the financial years ended 31 December 2012 and 2011 there were no business dispositions.

## 31. ASSETS CLASSIFIED AS HELD FOR SALE

The Company has classified certain assets related to non-mining environmental and infrastructure business as assets held for sale. The sale of these assets is anticipated to be completed early in the second quarter of 2013. On reclassification of these operations to assets held for sale, the Company has recognised an impairment loss of \$3,986,000. This business has been classified and accounted for at 31 December 2012 as a disposal group held for sale related to the drilling services business segment

The following assets were reclassified to assets held for sale at 31 December 2012:

	2012 US\$'000
Trade and other receivables	13,269
Inventories	722
Prepaid expenses and other assets	212
Property, plant and equipment	19,159
Other intangible assets	444
Other assets	191
	<u>33,997</u>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 32. SHARE-BASED PAYMENTS

The Company has established a Long-term Incentive Plan ("LTIP") to assist in retaining key employees and encouraging superior performance on a sustained basis. The incentive provided under the LTIP includes an annual grant of rights that will vest based on the satisfaction of either time-based conditions or both performance-based and time-based conditions. Vested rights will convert to ordinary fully paid shares on a one-for-one basis.

Under the terms of the LTIP, the performance share rights vest upon the achievement of performance targets set by the Board. For awards granted prior to 2010, the performance targets were based on cumulative EPS over a three-year performance period. Awards granted beginning in 2010 have performance targets based on three-year average ROE targets. The Board has set threshold and maximum targets for both the EPS and ROE performance awards during each three-year performance period and vesting will be determined by the Company's actual performance against the targets. Partial vesting occurs on a pro-rata basis if the three-year threshold target is surpassed. Full vesting occurs only if the Company's actual performance meets or exceeds the maximum target for the three-year period. Participants must also remain continuously employed with the Company during the performance period. The retention share rights vest upon continuous employment with the Company from the grant date until the third anniversary of the grant date. The Company may acquire shares underlying the grants, which shares will be held in trust. For grants made prior to 2012, the participant will receive dividends paid on those shares from the time of acquisition until vesting. For grants made beginning in 2012, dividends paid on unvested share rights will be held in trust and paid when vesting occurs.

At the Company's annual general meeting on 11 May 2010, shareholders approved a 10 for 1 share consolidation. Trading in the consolidated shares commenced 13 May 2010. The number of share rights, options and restricted shares have been restated in this report using the consolidated share amounts.

The total share-based expense associated with share rights granted under the LTIP for the years ended 31 December 2012 and 2011 was \$6,500,000 and \$5,107,000, respectively.

The Board has on certain occasions granted share options to certain senior management in order to attract, retain and properly incentivise those individuals. During 2010, the Company granted 25,000 share options to an employee with an exercise price of A\$3.20 per share. The share-based expense associated with share options for the years ended 31 December 2012 and 2011 was \$804,000 and \$748,000, respectively. \$54,000 of share-based compensation was capitalised in the fiscal year ended 31 December 2012 (2011 - \$268,000).

### Share Rights

The following table reflects the share rights arrangements that were in existence at 31 December 2012:

Series - Share Rights	Number	Effective grant date	Vesting date	Fair value at grant date <sup>1</sup> US\$
1 - Issued 1 March 2010	1,613,481	1-Mar-10	1-Mar-13	2.78
2 - Issued 15 March 2010	104,600	15-Mar-10	15-Mar-13	2.93
3 - Issued 26 August 2010	10,844	26-Aug-10	26-Aug-13	3.29
4 - Issued 15 March 2011	1,564,816	15-Mar-11	15-Mar-14	4.36
5 - Issued 11 July 2011	26,750	11-Jul-11	11-Jul-14	4.27
6 - Issued 14 October 2011	110,000	14-Oct-11	14-Oct-14	3.05
7 - Issued 15 March 2012	1,849,899	15-Mar-12	15-Mar-15	4.50

(1) Because share rights have no market vesting conditions and participants are entitled to dividends, share rights are valued at the market price upon the grant date.

The following reconciles the outstanding share rights at the beginning and end of the year:



# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 32. SHARE-BASED PAYMENTS (CONTINUED)

	2012 Number of rights '000	2011 Number of rights '000
<b>Share rights</b>		
Balance at beginning of year	5,483	3,686
Granted	2,690	2,270
Forfeited	(1,296)	(151)
Vested	(1,597)	(322)
Balance at end of year	5,280	5,483

The following share rights vested during 2012:

Grant date	Date of vest	Number of shares '000	Fair value at date of vest A\$
14-Jan-09	14-Jan-12	1	3.09
25-Mar-09	25-Mar-12	1,170	4.16
2-Jul-09	2-Jul-12	5	2.96
1-Mar-10	31-Dec-12	101	1.95
1-Mar-10	5-Oct-12	47	1.74
1-Mar-10	1-Dec-12	33	1.50
26-Aug-10	26-Oct-12	11	1.64
15-Mar-11	31-Dec-12	70	1.95
15-Mar-11	26-Oct-12	11	1.64
15-Mar-11	1-Dec-12	11	1.50
15-Apr-11	1-Aug-12	65	2.34
14-Oct-11	19-Nov-12	5	1.45
15-Mar-12	31-Dec-12	56	1.95
15-Mar-12	26-Oct-12	6	1.64
15-Mar-12	1-Dec-12	5	1.50

### Options

The following table reflects the options arrangements that were in existence at 31 December 2012:

Series - Options	Number	Effective grant date	Vesting date	Fair value at grant date US\$
1 - Issued 28 April 2008	100,000	28-Apr-08	5-Oct-12	6.87
2 - Issued 1 January 2009 <sup>1</sup>	150,000	28-Apr-08	5-Oct-12	14.50
3 - Issued 18 June 2009	317,500	18-Jun-09	18-Jun-12	1.43
4 - Issued 15 March 2010	25,000	15-Mar-10	15-Mar-13	2.24

- (1) The second grant of options Mr Kipp received in conjunction with his appointment as CEO was issued as of 1 January 2009. For purposes of compliance with Australian Accounting Standards, the effective grant date was determined to be 28 April 2008.

The fair values of the options grants were determined using the Black-Scholes option pricing model using the following inputs:

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 32. SHARE-BASED PAYMENTS (CONTINUED)

	Grant date share price US\$	Expected volatility	Life of rights	Dividend yield	Risk-free interest rate
Series 1	16.30	49.86%	56 months	0.86%	5.58%
Series 2	16.30	49.86%	68 months	0.86%	5.58%
Series 3	1.90	97.29%	60 months	0.00%	5.59%
Series 4	2.93	92.14%	60 months	0.00%	5.25%

The following reconciles the outstanding options at the beginning and end of the year:

	2012		2011	
	Number of options '000	Weighted average exercise price US\$	Number of options '000	Weighted average exercise price US\$
<b>Options</b>				
Balance at beginning of year	592	4.88	592	4.88
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Balance at end of year	592	4.88	592	4.88
Exercisable at end of year	567	4.88	-	-

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 33. KEY MANAGEMENT PERSONNEL COMPENSATION

### Details of key management personnel

The Directors and other members of key management personnel of the Company during the financial year were:

- David McLemore – Chairman, non-executive Director, and, from 5 October 2012, interim Chief Executive Officer
- Bruce Brook - non-executive Director
- Roger Brown - non-executive Director
- Roy Franklin - non-executive Director
- Tanya Fratto - non-executive Director
- Barbara Jeremiah - non-executive Director
- Peter St. George - non-executive Director
- Craig Kipp – Chief Executive Officer and executive Director (resigned effective 3 October 2012)
- Joe Ragan III - Chief Financial Officer
- Fabrizio Rasetti - Senior Vice President, General Counsel and Company Secretary
- Brad Baker - Senior Vice President, Human Resources
- Michael Birch - Vice President, Drilling Services <sup>1</sup>
- Alan Sides – Vice President, Products

(1) Mr Birch's employment terminated on 31 January 2013.

The aggregate compensation made to key management personnel of the Company is set out below.

	2012 US\$	2011 US\$
Short-term employee benefits	5,967,949	6,171,076
Post-employment benefits	116,009	110,012
Other long-term benefits	465,864	989,175
Termination benefits	1,044,640	-
Share-based payment	2,651,514	3,127,647
	<u>10,245,976</u>	<u>10,397,910</u>

## 34. RELATED PARTY TRANSACTIONS

### Transactions with key management personnel

- (i) Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 33.

- (ii) Other transactions with key management personnel of the Company

None.

- (iii) Key management personnel equity holdings

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

### Shares

The number of shares held by Directors and other key management personnel are disclosed below.

	Balance 1 January	Net change during year	Balance 31 December	Balance held nominally
<b>2012</b>				
David McLemore	115,861	40,000	155,861	-
Bruce Brook	104,423	30,000	134,423	-
Roger Brown	30,000	-	30,000	-
Roy Franklin	-	45,000	45,000	-
Tanya Fratto	-	20,000	20,000	-
Barbara Jeremiah	30,000	20,000	50,000	-
Peter St. George	107,450	50,000	157,450	-
Craig Kipp	564,998	201,760	N/A <sup>1</sup>	-
Joe Ragan III	18,523	52,322	70,845	-
Fabrizio Rasetti	117,286	38,368	155,654	-
Brad Baker	8,967	38,370	47,337	-
Michael Birch	48,343	38,370	86,713	-

	Balance 1 January	Net change during year	Balance 31 December	Balance held nominally
<b>2011</b>				
David McLemore	115,861	-	115,861	-
Bruce Brook	104,423	-	104,423	-
Roger Brown	30,000	-	30,000	-
Roy Franklin	-	-	-	-
Tanya Fratto	-	-	-	-
Barbara Jeremiah	-	30,000	30,000	-
Peter St. George	107,450	-	107,450	-
Craig Kipp	521,463	43,535	564,998	-
Joe Ragan III	-	18,523	18,523	-
Fabrizio Rasetti	106,612	10,674	117,286	-
Brad Baker	-	8,967	8,967	-
Michael Birch	66,460	(18,117)	48,343	-

(1) Mr Kipp's 31 December 2012 share balance is not reported due to his termination as a related party effective 5 October 2012. His net change for the year is reflected through the termination date.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

### Share rights and restricted shares

Details of the number of share rights granted under the LTIP program and restricted shares that have been granted as compensation to key management personnel, and the activity during the financial year, are as follows:

	Held at the beginning of the financial year	Granted as remun- eration	Vested and issued during the year	Forfeited during the year	Held at the end of the financial year
<b>2012</b>					
Craig Kipp	1,065,400	681,200	(227,475)	(829,747)	689,378
Joe Ragan III	258,000	90,000	(75,000)	-	273,000
Fabrizio Rasetti	207,578	90,000	(55,000)	-	242,578
Brad Baker	187,150	75,000	(55,000)	-	207,150
Michael Birch	217,900	90,000	(55,000)	-	252,900
Alan Sides	164,600	70,000	-	-	234,600

	Held at the beginning of the Financial year	Granted as remun- eration	Vested and issued during the year	Forfeited during the year	Held at the end of the financial year
<b>2011</b>					
Craig Kipp	659,291	455,580	(43,535)	(5,936)	1,065,400
Joe Ragan III	208,000	80,000	(26,400)	(3,600)	258,000
Fabrizio Rasetti	155,428	70,000	(15,708)	(2,142)	207,578
Brad Baker	142,150	60,000	(13,200)	(1,800)	187,150
Michael Birch	157,900	80,000	(17,600)	(2,400)	217,900
Alan Sides	104,600	60,000	-	-	164,600

- (1) The restricted shares that vested in 2010 were awarded upon the Company's initial public offering in April 2007 in respect of work performed prior to the Company's listing.

### Cash rights

Details of the cash rights that have been granted under the LTIP program as compensation to key management personnel, and the activity during the financial year, are as follows:

	Held at the beginning of the financial year US\$	Granted as remun- eration US\$	Vested and issued during the year US\$	Forfeited during the year US\$	Held at the end of the financial year US\$
<b>2012</b>					
Craig Kipp	1,196,300	-	746,300	60,300	389,700
Joe Ragan III	375,000	-	275,000	-	100,000
Fabrizio Rasetti	305,000	-	225,000	-	80,000
Brad Baker	305,000	-	225,000	-	80,000
Michael Birch	305,000	-	225,000	-	80,000
Alan Sides	80,000	-	-	-	80,000

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

	Held at the beginning of the financial year US\$	Granted as remun- eration US\$ <sup>1</sup>	Vested and issued during the year US\$	Forfeited during the year US\$	Held at the end of the financial year US\$
<b>2011</b>					
Craig Kipp	1,196,300	-	-	-	1,196,300 <sup>2</sup>
Joe Ragan III	375,000	-	-	-	375,000
Fabrizio Rasetti	305,000	-	-	-	305,000
Brad Baker	305,000	-	-	-	305,000
Michael Birch	305,000	-	-	-	305,000
Alan Sides	80,000	-	-	-	80,000

(1) The cash rights vest over a three-year period from the grant date, with 50% subject to certain performance conditions.

(2) This amount was revised in this 2012 report to correct a reporting error from the prior years. Mr Kipp's total number of Cash Rights granted on 25 March 2009 was 746,300 but had been previously reported as 550,000.

The share and cash rights under the LTIP were provided at no cost to the recipient.

### Options

Details of the options that have been granted as compensation to key management personnel under the LTIP program, and the activity during the financial year are as follows:

	Held at the beginning of the financial Year	Granted as remun- eration	Vested during the year	Forfeited during the year	Held at the end of the financial year	Vested and exercisable as at 31 December 2012
<b>2012</b>						
Craig Kipp	340,000	-	340,000	-	-	340,000
Joe Ragan III	37,500	-	37,500	-	-	37,500
Fabrizio Rasetti	27,500	-	27,500	-	-	27,500
Brad Baker	27,500	-	27,500	-	-	27,500
Michael Birch	27,500	-	27,500	-	-	27,500
Alan Sides	25,000	-	-	-	25,000	-

	Held at the beginning of the financial year	Granted as remun- eration	Vested during the year	Forfeited during the year	Held at the end of the financial year	Vested and exercisable as at 31 December 2011
<b>2011</b>						
Craig Kipp	340,000	-	-	-	340,000	-
Joe Ragan III	37,500	-	-	-	37,500	-
Fabrizio Rasetti	27,500	-	-	-	27,500	-
Brad Baker	27,500	-	-	-	27,500	-
Michael Birch	27,500	-	-	-	27,500	-
Alan Sides	25,000	-	-	-	25,000	-

During the years ended 31 December 2012 and 2011, no shares were issued on the exercise of options previously granted as compensation to the above individuals.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2012

BOART LONGYEAR LIMITED

## 35. REMUNERATION OF AUDITORS

	2012 US\$	2011 US\$
<b>Company auditor's remuneration</b>		
Audit and review of the financial report:		
Auditor of the parent entity	1,465,000	1,369,000
Related practices of the parent entity auditor	1,434,000	1,173,000
	<u>2,899,000</u>	<u>2,542,000</u>
Non-audit services:		
Tax services	1,541,000	2,669,000
Review of tax returns	539,000	687,000
Due diligence and other non-audit services	61,000	359,000
	<u>2,141,000</u>	<u>3,715,000</u>
<b>Total remuneration to Company auditor</b>	<u>5,040,000</u>	<u>6,257,000</u>
<b>Remuneration to other accounting firms</b>		
Audit services	356,000	272,000
Non-audit services:		
Tax services	2,069,000	2,457,000
Internal audit	474,000	1,339,000
Global mobility	2,009,000	885,000
Accounting and payroll services	232,000	439,000
Other	208,000	430,000
<b>Total remuneration to other accounting firms</b>	<u>5,348,000</u>	<u>5,822,000</u>

The auditor of Boart Longyear Limited is Deloitte Touche Tohmatsu. The Company has employed Deloitte Touche Tohmatsu on assignments additional to their audit duties where their expertise and experience with the Company are important. These assignments principally have been related to tax advice and tax compliance services, the magnitude of which is impacted by the global reach of the Company.

The Company and its Audit, Compliance & Risk Committee ("Audit Committee") are committed to ensuring the independence of the external auditors. Accordingly, significant scrutiny is given to non-audit engagements of the external auditor. The Company has a formal pre-approval policy which requires the pre-approval of non-audit services by the Chairman of the Audit Committee or the Audit Committee. Additionally, the total annual fees for such non-audit services cannot exceed the auditor's annual audit fees without the approval of the Audit Committee. The Audit Committee believes that the combination of these two approaches results in an effective procedure to pre-approve services performed by the external auditor.

Consistent with the approach outlined above, the Audit Committee approved Deloitte Touche Tohmatsu's services on a tax-related business improvement project for the years ended 31 December 2012 and 2011. It is expected that this project will conclude during the year ending 31 December 2013. The Company expects that the level of non-audit services will continue to be below the audit fee in subsequent years.

## 36. SUBSEQUENT EVENTS

On 15 February 2013, the Company amended its revolving bank debt facility to increase the aggregate principal amount available under the facility to \$450,000,000 from \$350,000,000. The increase was completed by the Company primarily to provide additional liquidity and flexibility as insurance against current market uncertainty. A required reduction of \$50,000,000 of commitments will occur 18 months after the closing date of the amendment, bringing the total outstanding commitments at that time to \$400,000,000. All other material terms and conditions of the revolving credit agreement, including covenants, maturity and pricing, remain unchanged.