National Hire Group Limited

ACN 076 688 938 ABN 61 076 688 938

12 Hoskins Road Landsdale WA 6065
Phone: (08) 9302 0000
Fax: (08) 9302 0001
Website: www.nationalhire.com.au

ASX Announcement
18 October 2011

NATIONAL HIRE GROUP LIMITED ("NHR")
TARGET'S STATEMENT – TAKEOVER OFFER BY SEVEN (NATIONAL) PTY LIMITED FOR NATIONAL HIRE GROUP LIMITED

In accordance with item 14 of section 633(1) of the Corporations Act 2001 (Cth), attached is a copy of the Target's Statement of National Hire Group Limited (ASX:NHR) and the Independent Expert's Report in response to the off-market takeover bid by Seven (National) Pty Ltd (ACN 153 299 159), a wholly owned subsidiary of Seven Group Holdings Limited (ACN 142 003 469).

Gayle McGarry
Company Secretary

About National Hire

National Hire Group Limited owns equipment sales and support businesses which operates under the name Allight, Sykes and Primax and a 46.1% interest in Coates Group Holdings Pty Ltd which owns the Coates Hire business.

Allight manufactures, assembles, sells and supports mobile lighting and power generation equipment and distributes Perkins engines, FG Wilson power generation sets and Rotair compressors. Sykes and Primax manufacture, sell and support dewatering solutions globally.

Coates Hire is the largest rental business in Australia and is one of the largest rental businesses globally. Coates Hire has been hiring equipment to the mining construction and event management sectors for more than a century, and today has a network of over 200 branches across Australia.

National Hire Group Limited
(ABN 61 076 688 938)

Target's Statement

National Hire

This Target's Statement has been issued in response to the off-market takeover bid made by Seven (National) Pty Limited, a wholly owned subsidiary of Seven Group Holdings Limited for all of the shares in National Hire Group Limited in which Seven Group Holdings Limited does not already have a relevant interest.

The Independent Directors' recommendation is set out in section 1.2 of this Target's Statement. Shareholders should read this Target's Statement in full before deciding whether to accept Seven's Offer.

The Independent Expert has concluded that the Offer of $3.00 per Share and the potential Offer of $3.60 per Share is, in each case, not fair but reasonable to Shareholders not associated with Seven. The Independent Expert values Shares in the range of $3.66 to $4.30 on a control basis.

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.
If you are in any doubt as to how to deal with this document, please consult your financial or other professional adviser.

Financial adviser
GRANT SAMUEL

Legal adviser
ALLEN & OVERY

CONTENTS

IMPORTANT NOTICES

Nature of this document

This document is a Target's Statement issued by National Hire Group Limited ABN 61 076 688 938 (**National Hire**) under Part 6.5 Division 3 of the Corporations Act in response to the off-market takeover bid made by Seven (National) Pty Limited ACN 153 299 159 (**Seven**), a wholly owned subsidiary of Seven Group Holdings Limited ABN 46 142 003 469 (**SGH**) to acquire all of the issued ordinary shares in National Hire (**Shares**) in which SGH does not already have a relevant interest (**Offer**).

A copy of this Target's Statement was lodged with ASIC and given to SGH and ASX on 18 October 2011. Neither ASIC nor ASX nor any of their respective officers take any responsibility for the content of this Target's Statement.

Shareholder information

National Hire has established a shareholder information line which Shareholders may call if they have any queries in relation to the Offer. The telephone number for the National Hire Information Line is 1300 560 339 (within Australia) or +61 2 8011 0354 (outside Australia) which will be open between 8.30 a.m. and 5.30 p.m. (Sydney time) Monday to Friday until the end of the Offer Period.

Further information relating to the Offer can be obtained from National Hire's website at www.nationalhire.com.au or from ASX's website at www.asx.com.au.

Defined terms

A number of defined terms are used in this Target's Statement. These terms are explained in section 9 of this Target's Statement. In addition, unless the contrary intention appears or the context requires otherwise, words and phrases used in this Target's Statement have the same meaning and interpretation as in the Corporations Act.

Investment decisions

This Target's Statement does not constitute financial product advice and has been prepared without reference to your investment objectives, financial situation, tax position or other circumstances. Your Independent Directors encourage you to: read this Target's Statement (including the Independent Expert's Report), the Bidder's Statement and the 2011 Annual Report in their entirety; have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances; consider the alternatives discussed in this Target's Statement; and obtain independent financial, legal, taxation or other professional advice, before making a decision as to whether or not to accept the Offer.

Forward looking statements

Certain statements in this Target's Statement relate to the future. The forward looking statements in this Target's Statement are not based on historical facts, but rather reflect the current views and expectations of National Hire concerning future events and circumstances. These statements may generally be identified by the use of forward looking verbs such as "aim", "anticipate", "believe", "estimate", "expect", "foresee", "intend" or "plan", qualifiers such as "may", "should", "likely" or "potential" or derived or similar words. Similarly, statements that describe the expectations, goals, objectives, plans or targets of SGH or National Hire are or may be forward looking statements.

These forward looking statements are based on certain assumptions regarding the operations of National Hire and the economic and regulatory environment in which National Hire will operate in the future. They are subject to known and unknown risks and uncertainties that could cause the actual outcomes, and the actual performance or results of National Hire to be materially different from the outcomes, or the performance or results of National Hire expressed or implied by such statements, including, among other things, general economic conditions, changes in law, regulation or government policy. All forward

looking statements should be read in light of such risks and uncertainties.

The forward looking statements in this Target's Statement reflect views and expectations held only at the date of this Target's Statement. National Hire believes that all forward looking statements included in the Target's Statement have been made on a reasonable basis however neither National Hire nor any other person gives any representation, assurance or guarantee that any outcome, performance or results expressed or implied by any forward looking statements in this Target's Statement will actually occur. Shareholders should therefore treat all forward looking statements with caution and not place undue reliance on them.

Subject to any continuing obligations under law or the ASX Listing Rules, National Hire and its respective directors disclaim any obligation to revise or update after the date of this Target's Statement any forward looking statements to reflect any change in the views, expectations or assumptions on which those statements are based.

Foreign jurisdictions

The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Target's Statement has been prepared having regard to Australian disclosure requirements and Australian accounting standards. These disclosure requirements and accounting standards may be different from those in other countries.

Privacy

National Hire has collected your information from the Register for the purpose of providing you with this Target's Statement. Such information may include your name, contact details and shareholdings. Without this information, National Hire would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of Shareholders and option holders to be held in a public register. Personal information of the type described above may be disclosed to National Hire and Seven, and their registries, print and mail and other service providers, authorised securities brokers, Related Bodies Corporate and Affiliates of National Hire and Seven, and may be required to be disclosed to regulators, such as ASIC. Shareholders have certain rights to access personal information that has been collected. Shareholders should contact the National Hire Registry in the first instance, if they wish to access their personal information. Shareholders who appoint a named person to act as their proxy, attorney or corporate representative should ensure that they inform that person of these matters.

References to currency

All references to $, A$, dollars or cents in this Target's Statement are to Australian currency, unless otherwise specified.

References to time

All references to time in this Target's Statement are to the time in Sydney, Australia, unless otherwise specified.

Board approval of this Target's Statement

In the Board approving this Target's Statement, it should be noted that the Connected Directors did not review, nor do they take responsibility for, matters relating to the Independent Directors' recommendations or statements of intention or the opinions of the Independent Expert.

Date of this Target's Statement

This Target's Statement is dated 18 October 2011.

KEY DATES

Event	Date
Date of the Offer	4 October 2011
Date of this Target's Statement	18 October 2011
Closing Date for the Offer (unless the Offer is extended)	7.00pm (Sydney time) on 21 November 2011

Note: The Closing Date for the Offer may change as permitted by the Corporations Act. Any changes to the above timetable will be announced to ASX (www.asx.com.au) and published on National Hire's website at www.nationalhire.com.au.

LETTER FROM CHAIRMAN OF THE INDEPENDENT BOARD COMMITTEE OF NATIONAL HIRE

18 October 2011

Dear Shareholder

On 20 September 2011, Seven (National) Pty Limited (**Seven**), a wholly owned subsidiary of Seven Group Holdings Limited (**SGH**), announced that it intended to make an off-market takeover offer (**Offer**) to acquire all of the ordinary shares in National Hire Group Limited (**National Hire**) (**Shares**) in which SGH does not already have a relevant interest for $3.00 per Share (**General Offer Price**). SGH, through its wholly owned subsidiary, WesTrac Pty Limited, is the major shareholder in National Hire and as at 14 October 2011 SGH had a relevant interest in 66.81% of all Shares on issue. Seven's Offer is unconditional which means that it is able to acquire Shares at up to $3.00 per Share either through its Offer or on-market.

Seven has committed to increase the consideration to $3.60 per Share (**Incremental Offer Price**) if, before the end of the Offer Period, it acquires at least 91.55% of National Hire Shares. However, there is no assurance that this threshold will be met because Elph Pty Ltd (**Elph**), a company holding 21.9% of the Shares, has stated that it intends to reject the Offer where it is only assured of receiving $3.00 per Share for the reasons set out in section 1.7 of this Bidder's Statement. Elph has not made any decision whether it would accept the Incremental Offer Price, or accept the Offer in circumstances where its acceptance would satisfy the threshold for the Incremental Offer Price.

Seven has prepared a Bidder's Statement setting out the full terms and conditions of its Offer. Seven completed despatch of the Bidder's Statement to shareholders on 6 October 2011. It is also available from ASX at www.asx.com.au.

Independent Board Committee

For the purpose of evaluating and responding to the Offer, the board of National Hire established an independent board committee (**IBC**). The IBC is comprised of the directors who are independent of SGH, being Mr Stephen Donnelley, Mr Dale Elphinstone and Mr Clive Isenberg (the **Independent Directors**). The IBC appointed Grant Samuel Corporate Finance and Allen & Overy to advise National Hire in relation to the Offer.

Independent Expert

The IBC appointed Deloitte Corporate Finance Pty Limited (the **Independent Expert**) to opine on whether the Offer is fair and reasonable to shareholders (other than SGH and its associates) and to prepare a report for shareholders (**Independent Expert's Report**). A copy of the Independent Expert's Report is set out in Annexure A of this Target's Statement.

The Independent Expert has concluded that the Offer is not fair but reasonable to shareholders not associated with SGH. The Independent Expert has estimated the fair market value of the Shares on a control basis to be in the range of $3.66 to $4.30. This range is above the General Offer Price of $3.00 per Share and the Incremental Offer Price of $3.60 per Share.

Seven's proposal to delist National Hire from the ASX

Seven has stated that its preference is for National Hire to delist from the ASX based on the low liquidity of trading in Shares and the costs associated with maintaining a listing. On 17 October 2011, the board of National Hire resolved to add a delisting resolution to the resolutions to be considered at the annual general meeting to be held on 24 November 2011.

The Independent Directors voted against adding a delisting resolution to the resolutions to be considered at annual general meeting and are currently opposed to a delisting of National Hire in the present circumstances. This is because the Independent Directors do not currently consider that the perceived benefits of delisting outweigh the advantages of National Hire remaining listed. The Independent Directors note that removal from the official list of ASX is ultimately at the discretion of the ASX. There remains a real possibility that National Hire will be delisted and the Independent Directors have taken this risk into account as part of their overall evaluation of the Offer.

IBC recommendation

The IBC has given careful consideration to the Offer and the opinion of the Independent Expert.

The IBC believes that the General Offer Price and the Incremental Offer Price are less than the full underlying value of the Shares. There may be opportunities for shareholders to receive values in excess of the Incremental Offer Price in the longer term. However, the IBC also recognises that the Offer provides shareholders with certainty of price and liquidity at $3.00 per Share (and potentially $3.60 per Share at the Incremental Offer Price), which is a sizeable premium to recent trading prices for the Shares but is less than the lower end of the value range of the Independent Expert.

Consequently, the IBC's recommendation is:

- **Accept the Offer** if you are likely to want to sell your Shares in the foreseeable future. The Offer provides an attractive premium to recent trading prices and the Independent Directors cannot be confident that the opportunity to realise a higher price in the foreseeable future will be available. The IBC considers that accepting the Offer represents a lower risk option for shareholders.

- **Reject the Offer by doing nothing** if you wish to retain your exposure to National Hire's businesses and investments with a view to potentially achieving greater value in the longer term and are prepared to accept the risks and uncertainties that may be associated with retaining a shareholding in National Hire. The IBC considers that rejecting the Offer is a higher risk option for shareholders.

In forming its recommendation, the IBC took into account the following key considerations:

Reasons why shareholders may wish to ACCEPT THE OFFER	**Reasons why shareholders may wish to REJECT THE OFFER**
Certainty of price and liquidity of at least $3.00 per Share	The Offer fails to recognise the full underlying value of Shares
There will be a number of disadvantages for Shareholders if National Hire is delisted in the future	Shareholders will lose exposure to any upside in National Hire, particularly from the Coates Group Holdings Pty Limited investment
The Share price may fall following completion of the Offer	Value may be better reflected in the Shares if and when The Carlyle Group exits its investment in Coates Group Holdings Pty Limited
Seven may seek to alter or influence National Hire’s board and future dividend policy	It is possible that Seven prefers 100% ownership and could return with a subsequent higher offer
There is currently no competing proposal and little prospect of a competing proposal	Accepting the Offer may trigger tax consequences for some shareholders

None of the Directors who are not Independent Directors make a recommendation in respect of the Offer given their connection with SGH.

The IBC is mindful that the Offer presents shareholders with competing objectives – taking advantage of the Offer in the short term versus the uncertain potential to realise greater value in the longer term. Consequently, in determining whether to accept or reject the Offer, shareholders will need to consider their individual circumstances and investment objectives in light of the various benefits and disadvantages of the Offer.

The Independent Directors’ recommendation is set out in full in section 1.2 of this Target's Statement and the benefits and disadvantages of the Offer are set out in sections 1.6 and 1.7 respectively.

Your options

As a shareholder, you have three choices available to you in relation to the Offer. You can:

1. accept the Offer;

2. sell your Shares on-market; or

3. reject the Offer by doing nothing.

Further details in relation to the options available to you and the consequences of each option are set out in section 2.7 of this Target's Statement.

The Offer will be open until 7.00pm on 21 November 2011, unless extended as required or permitted by the Corporations Act. Instructions on how to accept the Offer are set out in section 9.3 of the Bidder's Statement. You will be advised if there are any material developments in relation to the Offer during the Offer Period.

Important details in relation to the Offer are set out in this Target's Statement. We encourage you to read this Target's Statement, the Bidder's Statement and the 2011 Annual Report carefully and in full, and to seek independent financial, legal, taxation or other professional advice. If you have any questions, you can call the National Hire Information Line for further information on 1300 560 339 (within Australia) or +61 2 8011 0354 (outside Australia) which will be open between 8:30 a.m. and 5:30 p.m. (Sydney time) Monday to Friday until the end of the offer period.

Yours sincerely,

Stephen Donnelley
Chairman, National Hire Independent Board Committee

1. INDEPENDENT DIRECTORS' RECOMMENDATION AND REASONS

1.1 Independent Board Committee

An Independent Board Committee, comprising Mr Stephen Donnelley, Mr Dale Elphinstone and Mr Clive Isenberg (being the National Hire Directors not associated with Seven), was formed by the Board for the purpose of responding to the Offer.

1.2 Independent Board Committee's recommendation in relation to the Offer

After taking into account the matters in this Target's Statement (including the Independent Expert's Report) and in the Bidder's Statement, the Independent Board Committee recommends that you:

ACCEPT THE OFFER if you are likely to want to sell your Shares in the foreseeable future. The Offer Consideration represents a premium to recent trading prices and the Independent Board Committee cannot guarantee that an opportunity to realise higher prices in the future will be available.

REJECT THE OFFER if you wish to retain your exposure to National Hire with a view to achieving potentially greater value in the longer term and you are prepared to accept the risks and uncertainties associated with remaining a Shareholder. The Offer Consideration does not recognise the full underlying value of Shares. The Independent Board Committee believes that there may be opportunities for Shareholders to receive values in excess of the Offer Consideration in the longer term.

In making its recommendation, the Independent Board Committee has taken into account the following key considerations for Shareholders:

Reasons why Shareholders may wish to ACCEPT THE OFFER	**Reasons why Shareholders may wish to REJECT THE OFFER**
Certainty of price and liquidity of at least $3.00 per Share	The Offer fails to recognise the full underlying value of Shares
There will be a number of disadvantages for Shareholders if National Hire is delisted in the future	Shareholders will lose exposure to any upside in National Hire, particularly from the Coates Group Holdings investment
The Share price may fall following completion of the Offer	Value may be better reflected in the Shares if and when Carlyle exits its investment in Coates Group Holdings
Seven may seek to alter or influence National Hire's board and future dividend policy	It is possible that Seven prefers 100% ownership and could return with a subsequent higher offer
There is currently no competing proposal and little prospect of a competing proposal	Accepting the Offer may trigger tax consequences for some Shareholders

None of the Directors who are not Independent Directors makes a recommendation in respect of the Offer given their connection with SGH.

In considering whether or not to accept the Offer, the Independent Board Committee encourages you to:

- have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances;
- consider the alternatives discussed in section 2.7 of this Target's Statement; and
- obtain independent financial, legal, taxation or other professional advice before making a decision as to whether or not to accept the Offer.

The Offer has a number of advantages, disadvantages and risks which are discussed in sections 1.6, 1.7 and 1.8 of this Target's Statement and may affect Shareholders in different ways depending on their individual circumstances. You should seek professional advice regarding the impact of the Offer on your individual circumstances.

1.3 Intentions of Directors in relation to their own shares

The present intentions of Directors who own or control the disposal of Shares are as follows:

- Mr Elphinstone intends to reject (or procure the rejection of) the Offer in respect of all Shares held by Elph where Elph is only assured of receiving $3.00 per Share. Elph has not made any decision whether it would accept the Incremental Offer Price of $3.60 per Share, or accept the Offer in circumstances where its acceptance would satisfy the threshold for the Incremental Offer Price. Elph’s reasons for rejecting the Offer are on the basis of the Independent Board Committee's reasons to reject the Offer as set out in sections 1.2 and 1.7 of this Target's Statement, and in particular Mr Elphinstone's belief in the long term value of National Hire;
- Mr Donnelley has not made any decision whether he would accept (or procure the acceptance of) the Offer in respect of all Shares held by Stirhill at either the General Offer Price of $3.00 per Share or the Incremental Offer Price of $3.60 per Share; and
- Mr Aitken does not intend to exercise any Options held by him and accordingly, would not be in a position to accept or reject the Offer in respect of any Shares issued as result of the exercise of those Options.

Details of the relevant interests of each Director in Shares are set out in section 5.2 of this Target's Statement.

1.4 Offer Consideration and structure

(a) Overall

Seven is offering Shareholders $3.00 per Share in cash. Seven has stated that this offer price will increase to $3.60 per Share if, before the end of the Offer Period, Seven and its associates acquire at least 75% by number of the Shares that it has offered to acquire under the Offer, which would result in Seven and its associates acquiring a relevant interest in at least 91.55% of all Shares (**Compulsory Acquisition Trigger**).

There can be no guarantee at the date of this Target's Statement that the Compulsory Acquisition Trigger will be satisfied. The more Shareholders that accept the Offer before the end of the Offer Period, the more likely it will be that the Offer Consideration becomes $3.60 per Share, although if

Elph does not accept the Offer then, irrespective of participation by other Shareholders, Seven will not reach the Compulsory Acquisition Trigger. Elph's intentions are described in section 1.3 above.

At the date of its Offer (4 October 2011), Seven and its associates had a relevant interest in 66.2% of the Shares. At 14 October 2011, Seven and its associates had increased their relevant interest to 66.81% of the Shares.

(b) Independent Expert has concluded that the General Offer Price of $3.00 per Share and the Incremental Offer Price of $3.60 per Share is, in each case, not fair but reasonable

National Hire appointed Deloitte as the Independent Expert to opine on whether the Offer is fair and reasonable to Shareholders (other than SGH and its associates) and to prepare a report for Shareholders (the **Independent Expert's Report**). A copy of the Independent Expert's Report is set out in Annexure A to this Target's Statement. Your Independent Directors recommend that you read the Independent Expert's Report in its entirety.

The Independent Expert has concluded that the General Offer Price of $3.00 per Share and the Incremental Offer Price of $3.60 per Share is, in each case, not fair but reasonable to Shareholders not associated with SGH. The Independent Expert has estimated the fair market value of Shares on a control basis to be in the range of $3.66 to $4.30 per Share. This range is above the General Offer Price of $3.00 per Share and the Incremental Offer Price of $3.60 per Share.

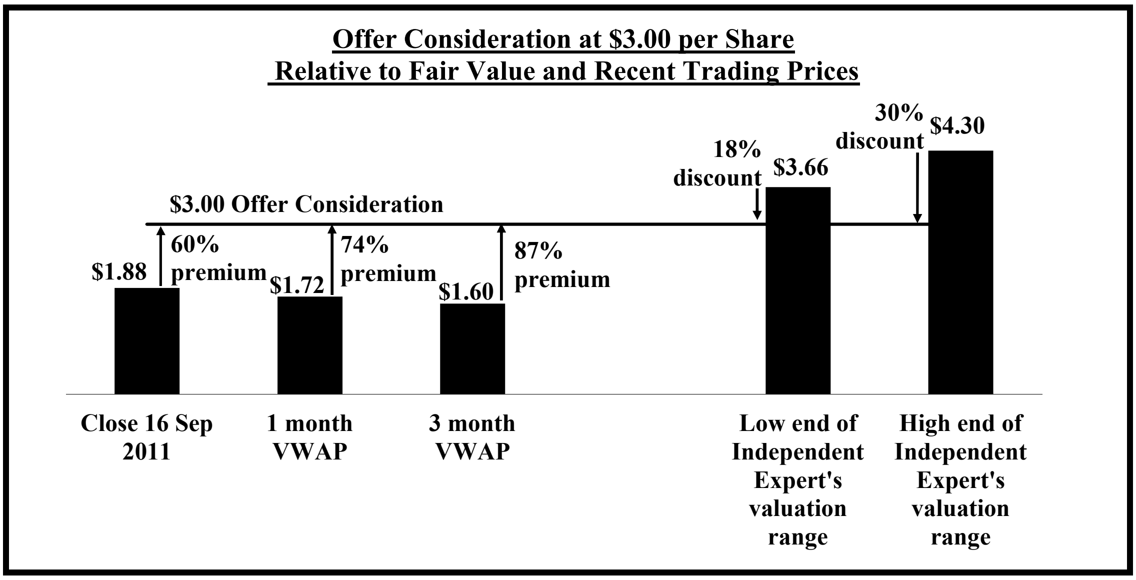
(c) Offer Consideration relative to valuation metrics

While both the General Offer Price of $3.00 per Share and the Incremental Offer Price of $3.60 per Share represent a premium to recent trading prices of Shares prior to the announcement of the Offer, it falls below the full underlying value range for Shares determined by the Independent Expert of $3.66 to $4.30 per Share.

The General Offer Price of $3.00 per Share represents a discount of 18 to 30% to the Independent Expert's value range and represents a premium of:

- 60% to the closing price of Shares on 16 September 2011 (being the last day prior to announcement of the Offer in which Shares were traded);[1]
- 74% to the one month volume weighted average price of Shares up to and including 16 September 2011;[2] and
- 87% to the three month volume weighted average price of Shares up to and including 16 September 2011.[3]

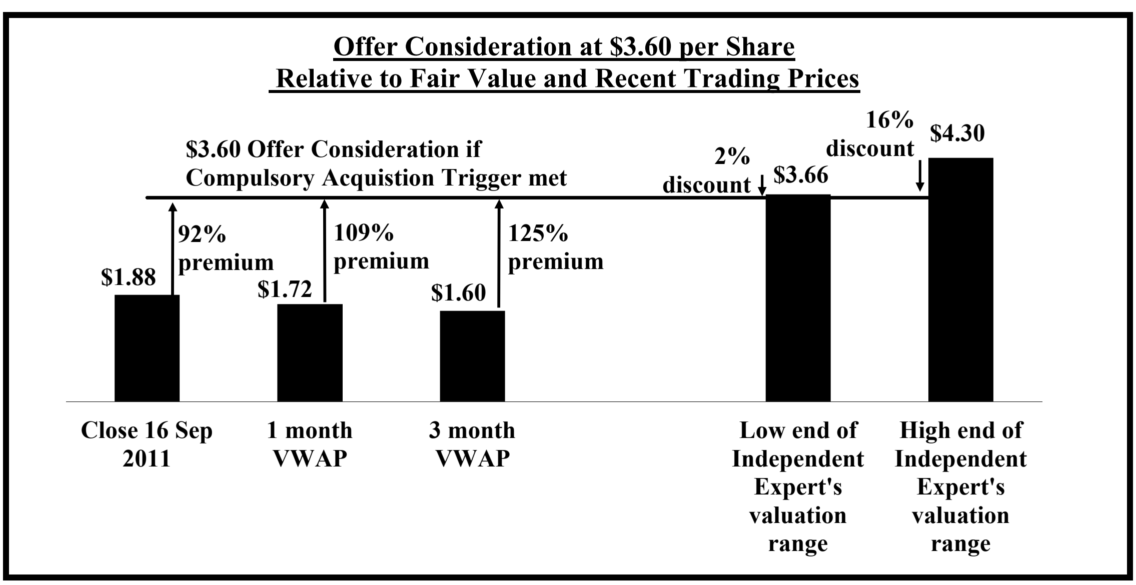
[1] Based on the closing price of Shares of $1.88.
[2] The one-month volume weighted average price of Shares up to and including 16 September 2011 was $1.72.
[3] The three-month volume weighted average price of Shares up to and including 16 September 2011 was $1.61.



The Incremental Offer Price of $3.60 per Share represents a discount of 2 to 16% to the Independent Expert's value range, and represents a premium of:

- 92% to the closing price of Shares on 16 September 2011 (being the last day prior to announcement of the Offer in which Shares were traded);[4]
- 109% to the one month volume weighted average price of Shares up to and including 16 September 2011;[5] and
- 125% to the three month volume weighted average price of Shares up to and including 16 September 2011.[6]

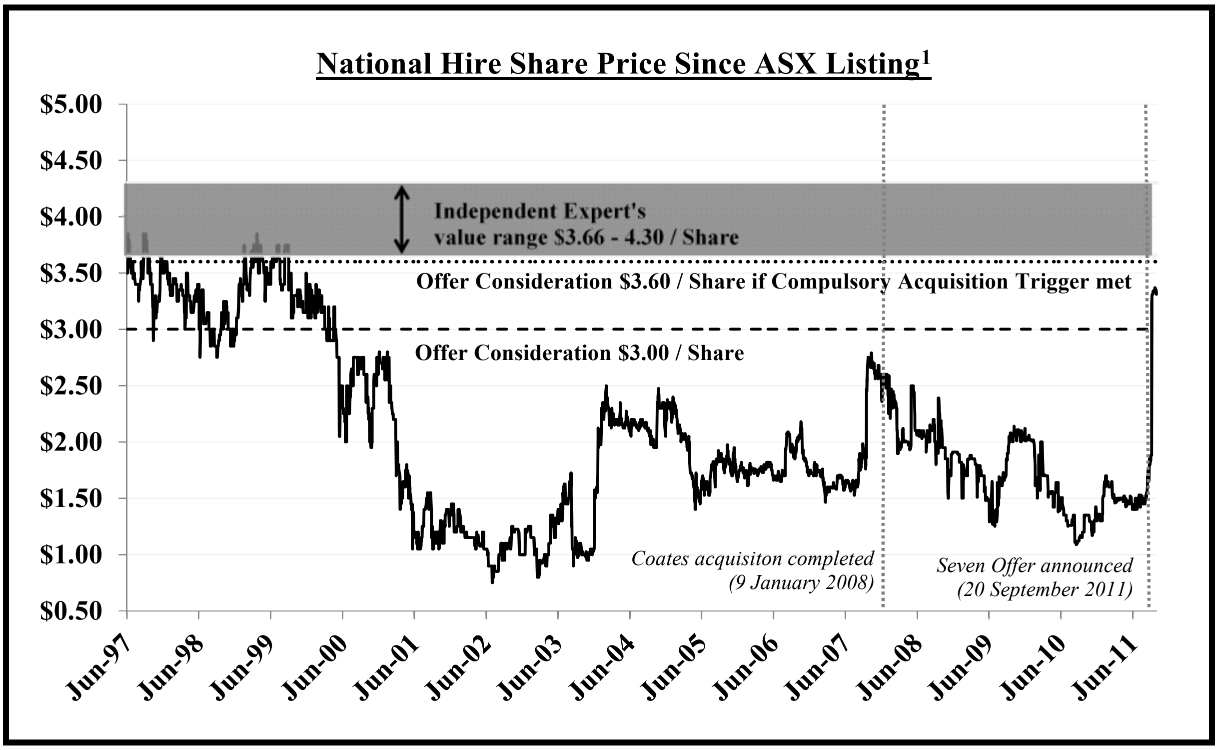
Shareholders should note that there can be no assurance that the Compulsory Acquisition Trigger will be achieved and that the Incremental Offer Price will become payable to Shareholders accepting the Offer.



4 Based on the closing price of Shares of $1.88.
5 The one-month volume weighted average price of Shares up to and including 16 September 2011 was $1.72.
6 The three-month volume weighted average price of Shares up to and including 16 September 2011 was $1.61.

Shares have traded at prices above the $3.00 General Offer Price and the $3.60 Incremental Offer Price in the past, however this was in the three years following National Hire's listing on the ASX (1997 to 2000). The Shares did not trade above the General Offer Price or the Incremental Offer Price in the 10 year period prior to announcement of the Offer.

The Independent Directors believe that trading prices in recent years have been below the true market value for the Shares, in part as a result of illiquid trading volumes.



1. Share trading prices prior to 17 November 2005 have been rebased to reflect the 1 for 5 share consolidation

1.5 Selling Shares as an alternative

As an alternative to accepting the Offer, Shareholders may wish to consider selling their Shares on-market through the ASX. Since the Offer was announced on 20 September 2011, Shares have traded at between $3.03 and $3.37 per Share (up to and including close of trading on 17 October 2011).

Settlement of trades on the ASX occurs on the third business day after the trade. This is comparable with the time for payment under the Offer, under which Seven will pay accepting Shareholders within 5 Business Days after the Offer is accepted. However, Shareholders who sell their Shares on-market will not be entitled to any increase in the Offer Consideration if, before the end of the Offer Period, the Compulsory Acquisition Trigger is satisfied or if Seven otherwise increases the Offer Consideration.

1.6 Reasons why Shareholders may wish to accept the Offer

(a) Certainty of price and liquidity of at least $3.00 per Share

Seven’s offer is unconditional. Therefore Shareholders who accept the Offer will have certainty of receiving the General Offer Price at $3.00 per Share. If the Compulsory Acquisition Trigger is met, this will increase to $3.60 per Share. These prices significantly exceed prices at which Shares have

recently traded on ASX prior to the date of the Offer. Shareholders should note that there can be no assurance that the Compulsory Acquisition Trigger will be achieved and that the Incremental Offer Price will become payable to Shareholders accepting the Offer.

National Hire has historically been a relatively illiquid stock with low volumes of Shares being traded. The average daily trading volume for Shares in the last 12 months up to and including 16 September 2011 (the last trading day prior to announcement of the Offer) was approximately 7,450 Shares. Over the same 12 month period, 1.3% of Shares were traded on the ASX.

The low liquidity of Shares is largely because National Hire's two largest shareholders, WesTrac (a subsidiary of SGH) with a 66.2% holding, and Elph with a 21.9% holding, together control 88.1% of Shares, leaving a free float of only 11.9% of Shares. In addition, National Hire is not a member of the major indices (eg S&P/ASX 200 or S&P/ASX 300) which are followed by index-based investors.

Limited trading liquidity can have a negative impact on the trading price of Shares, making it difficult for Shareholders to realise a reasonable value for their Shares by selling them on-market.

The illiquidity of Shares may increase if Seven acquires additional Shares under the Offer. By contrast, the Offer provides Shareholders with the opportunity to sell their Shares for at least the General Offer Price of $3.00 per Share if they choose to do so.

(b) There will be a number of disadvantages for Shareholders if National Hire is delisted in the future

There is a real possibility of National Hire being delisted following the Offer irrespective of take up under the Offer.

The Bidder's Statement states that if the Compulsory Acquisition Trigger is not satisfied, Seven intends to take steps to have National Hire removed from the official list of the ASX including convening a shareholders meeting to consider a delisting resolution and voting in favour of such resolution.

On 17 October 2011, the Board of National Hire resolved to add the following resolution to the resolutions to be considered at the annual general meeting to be held on 24 November 2011:

"That, subject to ASX deciding to remove the Company from the official list of the ASX, the Company be removed from the official list of the ASX on a date to be decided by ASX (being not earlier than one month after this Resolution is passed) and that the directors of the Company be authorised to do all things reasonably necessary or desirable to give effect to the delisting of the Company from the ASX."

The Independent Directors voted against adding a delisting resolution to the resolutions to be considered at the annual general meeting and are currently opposed to a delisting of National Hire in the present circumstances.

Given that SGH has the ability to control the composition of the Board by virtue of its majority holding (through its associates), it is expected that Seven would be able to procure the submission to ASX of a delisting application. No application has been made at this time.

A delisting would result in a number of disadvantages for minority Shareholders (set out below) including depriving them of a market for their Shares. The Independent Board Committee does not currently consider that the perceived benefits of delisting outweigh the advantages for Shareholders.

Under the ASX Listing Rules, ASX has the discretion to remove an entity from the official list at the entity's request but is not required to act on such a request and may impose conditions to be satisfied before the request is acceded to. If recent examples of companies which have been voluntarily de-listed are to be followed, it is likely ASX would require that a delisting application be approved by an ordinary shareholder resolution and that no voting exclusion would apply. Were this to be the case, SGH would be able to carry the vote. However, ASX has in some instances required that a delisting resolution be approved by a special resolution.

If National Hire was to be delisted either as a result of any unilateral exercise of discretion by ASX or the making of an application by any future Board, any remaining shareholders would be holders of unlisted shares. This has a number of potential disadvantages including:

- while the Independent Board Committee acknowledges that there is generally low liquidity in the Shares, a listing still provides a benefit for most shareholders of National Hire in having a capacity to dispose of their Shares (irrespective of whether or not that capacity is exercised from time to time). In this context, 757 Shareholders held a parcel of 10,000 shares or less (out of a total of 882 shareholders), as at 14 October 2011. If National Hire is delisted, minority Shareholders will be deprived of this capacity and of any real opportunity to sell their Shares from time to time. Listing provides National Hire shareholders with an orderly, transparent and timely mechanism for share trading;

- National Hire would not be subject to the listed company continuous disclosure requirements of the ASX Listing Rules. Although National Hire would still have the obligation to disclose material information to ASIC if it remained a public company after delisting and had at least 100 members, the level of shareholder reporting in these circumstances could be significantly diminished;

- various requirements and protections for minority shareholders under the ASX Listing Rules would cease to apply. These include the restrictions on the issue of new securities, related party provisions and requirements to seek shareholder approval for significant changes to the nature or scale of activities; and

- since National Hire is registered in New South Wales, any purchaser of Shares would be liable to pay unlisted marketable securities duty on the transfer at a rate of 0.6% on the higher of the consideration for the transfer and the unencumbered value of the Shares unless and until such time as that duty is abolished (currently scheduled for July 2012).

The principal benefit to Shareholders from a delisting is a saving of costs and overheads associated with National Hire maintaining a listed status. The level of savings will vary depending on National Hire's corporate status (i.e. whether it becomes a proprietary company or remains a public company) and consequent changes to the composition of the board and management team. However, in any event, these savings would be approximately $500,000 per year. The Independent Board Committee does not consider in the current circumstances that in the context of National Hire's size and scale and the benefits of maintaining a listed market for the Shares, the cost associated with remaining listed are a sufficient reason to justify delisting.

Section 6.4(a) of the Bidder's Statement states that following the end of the Offer Period, if Seven has acquired at least 75% of the total number of Shares and the number of Shareholders falls to 50 or less, it intends to requisition a Shareholder meeting and pass a special resolution authorising the conversion of National Hire from a public company to a proprietary company. Were National Hire converted from a public company to a proprietary company then, among other things, minority Shareholders would have more limited rights to information and both the takeovers provisions and certain related party provisions of the Corporations Act would cease to apply. The table in section 8.3 summarises some of the key differences between public companies and proprietary companies.

(c) The Share price may fall following completion of the Offer

Since the announcement of the Offer on 20 September 2011, the Shares have traded at prices between \$3.03 and \$3.37 per Share. The last sale price on 17 October 2011 was \$3.33 being:

- 77% above the closing price of Shares on 16 September 2011;
- 11% above the General Offer Price of \$3.00 per Share; and
- 8% below the Incremental Offer Price of \$3.60 per Share.

Following completion of the offer, the Independent Directors believe that the trading price of Shares may fall for the following reasons:

- following completion of the Offer there will be no takeover offer underpinning the Share trading price and Shares will be exposed to ASX market volatility;
- there will be a reduction in the free float of Shares if Seven increases its shareholding in National Hire during the Offer Period; and
- the possibility of National Hire delisting following the Offer may cause selling pressure on the Shares.

(d) Seven may seek to alter or influence National Hire's board and future dividend policy

Seven has stated in its Bidder’s Statement that following the Offer (subject to the Corporations Act and the constitution of National Hire) it intends to seek to replace some of the members of the Board who are not connected with SGH with nominees of SGH, so that SGH has proportionate representation on the Board. If this occurs, there will be fewer representatives on the Board that are independent of SGH. Seven has also advised National Hire that Seven has not determined whether it will permit at least one Independent Director to remain on the Board if National Hire is not wholly owned by Seven.

Seven has indicated in its Bidder's Statement that it will review the level of dividends payable by National Hire to ensure (to the extent that it is able to do so through its control of the composition of the Board) that any dividends are appropriate having regard to the capital funding requirements of National Hire and that, given National Hire's substantial debt as a result of the recent acquisition of Pump Rentals Pty Limited, it is expected that Seven would propose that no dividends be declared or paid by National Hire in the foreseeable future. It should be noted that no dividends have been declared or paid by National Hire since October 2008.

(e) There is currently no competing proposal and little prospect of a competing proposal

No competing proposal has emerged since the announcement of the Offer on 20 September 2011 and up to the date of this Target's Statement. SGH (via its wholly owned subsidiary, WesTrac) currently holds 66.2% of the Shares and any person proposing a competing proposal would need to gain SGH's support in order to acquire 100% of National Hire.

The Independent Directors believe it is highly unlikely that a competing proposal will emerge during the Offer Period. In the event that a competing proposal does emerge during the Offer Period, the Independent Directors will give careful consideration to the proposal and will advise Shareholders accordingly.

(f) No brokerage or stamp duty

If you accept the Offer, you will not incur any brokerage charges that you would otherwise be likely to pay if you sold your Shares on-market. If you hold your Shares in a CHESS holding or through another custodian arrangement, you should ask your broker or custodian if any fees or charges are payable.

1.7 Reasons why Shareholders may wish to reject the Offer

(a) The Offer fails to recognise the full underlying value of Shares

The Independent Directors believe that the Offer Consideration, even at the higher Incremental Offer Price of $3.60 per Share, is less than the full underlying value for Shares. In forming this view, the Independent Directors have had regard to the Independent Expert's report which values Shares on a control basis at $3.66 to $4.30 per Share.

Shareholders who accept the Offer will forgo any higher future value of the Shares.

(b) Shareholders will lose exposure to any value upside in National Hire, particularly from the Coates Group Holdings investment

The key value driver for National Hire is the performance of Coates Hire and AllightSykes. As stated in National Hire's most recent trading update (released 9 September 2011), both businesses are experiencing improved performance and trading conditions compared to the 2009 and 2010 financial years and it is expected that NPAT for the first half of the 2012 financial year will be in the range of $18-24 million (compared with $10.3 million in the first half of 2011). Sections 4.5 and 4.6 contain further details on the performance, outlook and potential risks for AllightSykes and Coates Hire.

The underlying value of Shares is expected to increase if the businesses continue to experience improved performance.[7] In particular, Coates Group Holdings is expected to continue to generate strong cashflows which may increase value in a number of ways, including:

- further reduction of borrowings (approximately $1.8 billion at 30 June 2011);
- expansion of operations and the rental fleet; and
- pursuing value accretive acquisitions.

In the longer term there is also potential for the business to make distributions to its shareholders, although this would be subject to operating cashflows, capital expenditure requirements and borrowing covenants.

With regard to the potential upside growth in National Hire, the Independent Expert believes that:

"National Hire is favourably exposed to growth sectors of the Australian and global economy, particularly the likely growth from industrial equipment hire and sales which are required to underpin announced and expected mining and infrastructure projects which should result in expansion of the operations of AllightSykes and the rental fleet for Coates."

This statement should be read in conjunction with the full Independent Expert's Report set out in Annexure A.

[7] Due to the lack of liquidity issues noted above, there is no assurance that this underlying value will lead to a greater market price or value for Shares.

Shareholders who accept the Offer will forgo the benefit of any potential future value uplift in the Coates Hire or AllightSykes businesses.

(c) Value may be better reflected in the Shares if and when Carlyle exits its investment in Coates Group Holdings

The Carlyle Group is one of the world's largest private equity firms, focussed on maximising returns for its fund investors. It has an economic interest of 46.1% in Coates Group Holdings (National Hire also has an economic interest of 46.1% in Coates Group Holdings, while management and minority financial investors hold the remaining 7.8% economic interest).

If Carlyle was to exit its investment in Coates Group Holdings, this would likely create better visibility for investors and the market of the underlying value of the Coates Hire business and, in certain scenarios, may also return funds to National Hire. Consequently, while there is no certainty that Carlyle will exit is investment in Coates Group Holdings, and even in circumstances where it does, there is no guarantee of a liquidity event for Shareholders at the time of a transaction. The Independent Board Committee believes that the true underlying value of the Coates Hire business may be better reflected in the Shares if Carlyle were to exit its investment in Coates Group Holdings.

Both Carlyle and National Hire are presently entitled to exit their investment in Coates Group Holdings in accordance with the exit mechanisms set out in the Investment Deed which governs the operations of Coates Group Holdings (these mechanisms are outlined in section 4.9 of this Target's Statement). At this stage, neither Carlyle nor National Hire have indicated any intention to exit their investment in the Coates business.

(d) It is possible that Seven prefers 100% ownership of National Hire and could return with a subsequent higher offer

Seven will only be able to acquire 100% of the Shares as a result of making the Offer if the Compulsory Acquisition Trigger is met. In its Bidder's Statement, Seven has stated its preference to own 100% of National Hire. Given Elph's intentions in relation to the Offer at the General Offer Price (see section 1.3 of this Target's Statement for further details) there is no assurance Seven will satisfy the Compulsory Acquisition Trigger. If this threshold is not met, Seven could return with a higher offer in the future.

Shareholders who accept the Offer will forgo the potential of any higher offer by Seven in the future. However, Shareholders should be aware that Seven is under no obligation to make a subsequent offer to remaining shareholders.

(e) Accepting the Offer may trigger tax consequences for some Shareholders

Accepting the Offer may trigger tax consequences which may not suit your financial position. A general outline of the likely tax consequences for Australian residents is included in section 7 of this Target's Statement, however Shareholders should seek independent professional advice regarding the tax consequences of accepting the Offer applicable to their individual circumstances.

1.8 Other material considerations

(a) Seven may acquire Shares on-market

In addition to acquiring Shares under the Offer, Seven retains the flexibility to acquire Shares on-market in the ordinary course of trade at $3.00 per Share without triggering any automatic increase in the General Offer Price.

Under the Corporations Act, if Seven's substantial holding in National Hire has changed by more than 1% from the previously notified level it must disclose its new holding to the ASX by 9:30am (Sydney time) the next day. You will be able to monitor these announcements by going to the ASX website at www.asx.com.au.

(b) Shareholders accepting the Offer

Shareholders accepting the Offer should note that:

- the Compulsory Acquisition Trigger will be determined by reference to the number of Shares at the time it is judged. If Options are exercised, this will increase the number of Shares required to accept the Offer for the Compulsory Acquisition Trigger to be satisfied; and
- once the Offer is accepted, there is no right to withdraw acceptance and there will be no ability to sell Shares in respect of which the Offer has been accepted on-market through ASX.

(c) Outcomes of the Offer

The potential outcomes under the Offer are as follows:

- Seven satisfies the Compulsory Acquisition Trigger before the end of the Offer Period. In this scenario, all Shareholders who accept the Offer will receive $3.60 per Share and Seven has stated that it will proceed to compulsorily acquire all remaining Shares in accordance with the provisions of Part 6A.1 of the Corporations Act. Seven has stated that compulsory acquisition will extend to Shares issued after the Offer closes but before the notices of compulsory acquisition are given, and to Shares issued upon the exercise of any Options in the period up to the end of the sixth week after the notices of compulsory acquisition are given.
- Seven does not satisfy the Compulsory Acquisition Trigger before the end of the Offer Period. In this scenario, all Shareholders who accept the Offer will receive $3.00 per Share. All other Shareholders will continue to hold their Shares and remain as Shareholders. Such Shareholders should note Seven’s intentions as set out in section 6.4 of its Bidder’s Statement.
- Seven does not satisfy the Compulsory Acquisition Trigger before the end of the Offer Period but becomes entitled to exercise (and exercises) general rights of compulsory acquisition under Part 6A.2 of the Corporations Act (eg Seven and its related bodies corporate have a beneficial interest in 90% of the Shares) after the expiry of the Offer Period. In this scenario, all Shareholders who accept the Offer will receive $3.00 per Share. All other Shareholders will receive fair value (as determined by a reputable independent expert) for their Shares in accordance with the provisions of Part 6A.2 of the Corporations Act.

Shareholders should be aware that any payment made to Shareholders whose Shares are compulsorily acquired by Seven will occur later than payments made to Shareholders who accept the Offer.

2. OFFER SUMMARY

2.1 Offer Consideration

Seven is offering Shareholders $3.00 per Share in cash. Seven has stated that the General Offer Price will increase to $3.60 if the Compulsory Acquisition Trigger is met. However, since Elph, a company associated with Mr Elphinstone and holding 21.9% of the Shares, has informed the Independent Board Committee that it intends to reject the Offer at the General Offer Price of $3.00 per Share in its current form, the Compulsory Acquisition Trigger cannot be met and the Offer Consideration will not be increased to $3.60 per Share unless enough acceptances are first received so as to ensure that any acceptance by Elph would be at the Incremental Offer Price of $3.60 per Share. As noted in section 1.3, Elph has not made any decision whether it would accept the Incremental Offer Price, or accept the Offer in circumstances where its acceptance would satisfy the threshold for the Incremental Offer Price.

2.2 Offer is unconditional

The Offer is unconditional. This means that if you accept the Offer before the end of the Offer Period, you will be paid the Offer Consideration for each of your Shares.

2.3 Offer period

The Closing Date of the Offer is currently 7.00pm (Sydney time) on 21 November 2011.

2.4 Extension of the Offer Period

Seven may extend the Offer Period at any time before the end of the Offer Period. In addition, there will be an automatic 14 day extension of the Offer Period if, within the last seven days of the Offer Period, Seven improves the Offer Consideration.

2.5 How to accept the Offer

To accept the Offer, you must follow the instructions set out in section 9.3 of the Bidder's Statement.

2.6 Effect of acceptance

The effect of acceptance of the Offer is set out in section 9.5 of the Bidder's Statement. Shareholders should read these provisions in full to understand the effect that acceptance will have on their ability to exercise the rights attaching to their Shares and the representations and warranties which they give by accepting of the Offer.

2.7 Choices for Shareholders

(a) Sell your Shares (either by accepting the Offer or selling your Shares on-market)

During a takeover, shareholders of a target entity who have not already accepted the bidder's offer can still sell their shares on-market for cash. Therefore, Shareholders may also consider disposing of their Shares during the Offer Period on-market through the ASX at prices at or above $3.00 per Share if they are able to do so and provided that they have not accepted the Offer. Shareholders who sell on-market as opposed to accepting the Offer will forgo the opportunity to receive a higher price if Seven varies its Offer to increase the Offer Consideration or to receive the Incremental Offer Price of $3.60 per Share in the event that this becomes payable. Since the Offer was announced on 20 September 2011, Shares have traded at between $3.03 and $3.37 per Share.

Settlement of trades on the ASX occurs on the third business day after the trade. This is comparable to the time for payment under the Offer, under which Seven will pay accepting Shareholders within five Business Days after the Offer is accepted.

However, Shareholders who sell their Shares on-market may incur a brokerage charge. Shareholders who wish to sell their Shares on-market should contact their broker for information on how to effect that sale.

You should consider whether you may be in a more favourable position if you were to sell your Shares on-market, or accept the Offer.

(b) Do nothing

Shareholders who wish to reject the Offer or sell their Shares on-market should do nothing. However, there is a real possibility that National Hire may be delisted and that even if it remains listed there will be less liquidity for Shares following the close of the Offer. Please refer to section 1.6(b) of this Target's Statement for further details.

3. QUESTIONS AND ANSWERS

This section answers some commonly asked questions about the Offer. It is not intended to address all relevant issues for Shareholders. This section should be read together with all other parts of this Target's Statement.

Who are Seven and SGH?	Seven is a wholly owned subsidiary of SGH, which is an ASX-listed Australian diversified operating and investment group. SGH shareholders have exposure to media investments and businesses as well as WesTrac Holdings Pty Limited, the parent of companies operating new and used Caterpillar equipment dealerships in NSW, ACT, Western Australia and parts of Northern China. As at 14 October 2011 SGH had a relevant interest in 66.81% of the Shares on issue. Further information on SGH can be found in the Bidder's Statement.
What is Seven's offer for my Shares?	Seven's Offer Consideration is $3.00 per Share increasing to $3.60 per Share in circumstances where the Compulsory Acquisition Trigger is met. Shareholders should note that there can be no assurance that the Compulsory Acquisition Trigger will be achieved and that the Incremental Offer Price will become payable to Shareholders accepting the Offer.
Are there any conditions to the Offer?	No. The Offer is not subject to any defeating conditions. If you accept the Offer before the end of the Offer Period, your Shares will be transferred to Seven and you will be paid the Offer Consideration for each of your Shares.
What options do I have as a Shareholder?	As a Shareholder, you have the following options available to you in respect of the Offer: • accept the Offer for all Shares that you hold; or • sell your Shares on ASX (unless you have previously accepted the Offer); or • reject the Offer by doing nothing (unless you have previously accepted the Offer). A summary of the implications in relation to each of the above choices is set out in section 2.7 of this Target's Statement.
What are the Independent Directors recommending?	The Independent Directors recommendation is set out in section 1.2 of this Target's Statement and depends on your investment profile and your appetite for risk.
What is the opinion of the Independent Expert?	The Independent Expert has concluded that the Offer is not fair but reasonable to Shareholders not associated with SGH. The Independent Expert has estimated the full underlying value of

	Shares to be in the range of \$3.66 to \$4.30 per Share. A full copy of the Independent Expert's Report is set out in Annexure A of this Target's Statement.
How do I reject the Offer?	Shareholders wishing to reject the Offer should do nothing.
Will National Hire be delisted?	Seven has indicated that following the bid it would seek shareholder approval to have National Hire delisted. While the Independent Directors are currently opposed to a delisting of National Hire in the present circumstances, there is a real possibility that National Hire may be delisted either as a result of any unilateral exercise of discretion by ASX or the making of an application by any future Board. Under the ASX Listing Rules, ASX has the discretion to remove an entity from the official list at the entity's request but is not required to act on such a request and may impose conditions to be satisfied before the request is acceded to. If recent examples of companies which have been voluntarily delisted are to be followed, it is likely ASX would require that a delisting application be approved by an ordinary shareholder resolution and that no voting exclusion would apply. Were this to be the case, SGH would be able to carry the vote and the resolution will be passed.
How do I accept the Offer?	Instructions for how to accept the Offer are set out in section 9.3 of the Bidder's Statement.
What are the consequences of accepting the Offer now?	Once you have accepted the Offer, you will not be able to sell your Shares on ASX, accept any other takeover offer that may be made by a competing bidder (should there be one) or deal with your Shares in any other manner. You Shares will be transferred to Seven and you will be paid the Offer Consideration.
If I accept the Offer, can I withdraw my acceptance?	No. As the Offer is unconditional you will not be entitled to exercise any right of withdrawal.
What happens if a competing proposal for National Hire emerges?	If a competing proposal for National Hire emerges, Shareholders will be informed through an announcement to ASX. The Independent Directors will carefully consider the competing proposal and advise you of their recommendation. If you have already accepted the Offer at the time that a competing proposal emerges, you will be unable to accept the competing proposal. Since the announcement of the proposed Offer on 20 September 2011, no competing proposal has emerged. As at 14 October 2011 SGH had a relevant interest in 66.81% of the Shares. Any person proposing a competing proposal would need to gain SGH's and Elph's support in order to acquire 100% of National Hire.
When does the Offer close?	The Offer is presently scheduled to close at 7.00 p.m. Sydney time on 21 November 2011, but may be extended as required or permitted by the Corporations Act.
When will I be sent my	If you accept the Offer before the end of the Offer Period, you will

consideration if I accept the Offer?	receive your Offer Consideration within 5 Business Days of your acceptance.
What are the tax implications of accepting the Offer?	A general outline of the likely tax consequences for Australian residents of accepting the Offer is set out in section 7 of this Target's Statement. The Independent Directors encourage Shareholders to seek professional advice regarding the taxation consequences of accepting the Offer applicable to their individual circumstances.
What happens if the Compulsory Acquisition Trigger is satisfied after I accept the Offer?	If the Compulsory Acquisition Trigger is satisfied after you have accepted the Offer, you will receive a separate cheque for the additional 60 cents per Share.
Is there a number that I can call if I have further queries in relation to the Offer?	If you have any further queries in relation to the Offer, you can call the National Hire Information Line on 1300 560 339 (within Australia) or +612 8011 0354 (outside Australia) which will be open between 8.30 a.m. and 5.30 p.m. (Sydney time) Monday to Friday until the end of the Offer Period.

4. PROFILE OF NATIONAL HIRE

4.1 Overview

The National Hire business was established in 1988 and subsequently listed on the ASX (ASX:NHR) in 1997. It has a market capitalisation of approximately $445 million at the General Offer Price and $535 million at the Incremental Offer Price. National Hire owns an equipment manufacturing and distribution business which operates under the AllightSykes and AllightPrimax brands and a 46.1% economic interest in Coates Group Holdings (which owns the Coates Hire business, Australia’s largest equipment hire company). Of the two interests, the Coates Group Holdings interest is the largest contributor to National Hire’s consolidated earnings.

4.2 Directors

As at the date of this Target's Statement, the Directors are as set out below. The interests of all Directors in Shares are set out in section 5.2 of this Target's Statement.

Hon. Richard Court, AC, Non-executive Director, Chairman
Appointed July 2008 (Appointed Chairman May 2010)

Mr Court was Premier and Treasurer of Western Australia from 1993–2001, retiring from Parliament after 19 years as the Member for Nedlands. He was appointed Companion in the General Division of the Order of Australia in June 2003 for service to the Western Australian Parliament and to the community. His Government led the LNG marketing push into new markets, the successful deregulation of the Western Australian gas markets and the successful privatisations of SGIO, BankWest, AlintaGas, Westrail Freight and the Dampier to Bunbury Natural Gas Pipeline.

Mr Court holds a Bachelor of Commerce degree from the University of Western Australia.

Mr Court is a director of WesTrac, chairman of RISC Pty Limited, the Channel 7 Telethon Trust and The Anglican Perth Diocesan Trustees and a director of Iron Ore Holdings Limited. He has also held a board position with GRD Limited (July 2004 – November 2009).

Andrew Aitken, Managing Director
Appointed December 2004

Mr Aitken was a non-executive director of National Hire until his appointment as Managing Director in May 2008. He is also a non-executive director of Coates Group Holdings. Mr Aitken joined ACE in 2003 where his focus was on the development of its equipment rental businesses. Prior to coming to Australia in 2003, Mr Aitken worked in the South African financial services industry for 13 years. The majority of his experience was as managing director of various funds management and private banking operations. As a result of the consolidation of the industry, Mr Aitken has been involved with the integration and merger of a number of financial services businesses.

Mr Aitken holds a Bachelor of Commerce degree and an honours degree from the University of Natal and the University of Cape Town respectively and a post graduate diploma in social studies from Oxford University.

Stephen Donnelley, Non-executive Director
Appointed December 1996

Mr Donnelley has over 20 years experience in the equipment hire industry, both as an employee and principal. Mr Donnelley was Managing Director of National Hire from 1988 to May 2008, being its founder and having been involved with the company's foundation business since 1981. He was previously a member of the Hire and Rental Association of Australia, an association of which he was previously a Vice President and a President and Vice President of its NSW region. Mr Donnelley is also a non-executive director of Coates Group Holdings.

Dale Elphinstone, Non-executive Director
Appointed January 2008

Mr Elphinstone is the Executive Chairman of the Elphinstone / William Adams group of companies, which includes the Caterpillar Dealerships in Victoria and Tasmania and other business interests in Australia and New Zealand. He is the non-executive chairman of Engenco Limited, and was previously a director of Queensland Gas Company Limited (October 2002 – November 2008).

Clive Isenberg, Non-executive Director
Appointed March 2004

Mr Isenberg is Managing Director of Octet Finance Pty Limited, a company providing supply chain finance and working capital finance solutions in Australia, China and the USA. Mr Isenberg was until May 2000 the owner and Managing Director of Scottish Pacific Business Finance Pty Limited, a position he held for 18 years. He has also held the position of General Manager of St. George Bank Business Customer Division. Mr Isenberg is an associate of the Institute of Chartered Accountants in Australia, a fellow of the Certified Practising Accountants and a graduate of accounting. Mr Isenberg has extensive experience in financial services and for many years was a director of Bank of Scotland subsidiaries in Australia including Capital Finance Limited, BOS International Limited and the holding company of Bank of Western Australia. Mr Isenberg was the founder and past chairman of the Institute for Factors and Discounters of Australia and was chairman of Factors Chain International (an international association of leading cash flow financiers) between 1997 and 1999.

James Walker, Non-executive Director
Appointed June 2008

Mr Walker is the Chief Executive Officer of WesTrac Group, and has been with WesTrac Group for more than 20 years. As a result of the 2010 acquisition of WesTrac Group by SGH, Mr Walker became an executive director of WesTrac Group’s new parent company. He is also a non-executive director of Coates Group Holdings. Prior to his employment at WesTrac, Mr Walker spent considerable time with other Australian Caterpillar dealers, namely Hastings Deering and Morgan Pty Limited and the Bougainville Dealership in Papua New Guinea.

Mr Walker is National President of the Australian Institute of Management and a member of the Executive Council of the Chamber of Minerals and Energy. He has also acted as director of SGH since February 2010.

4.3 History and structure

The National Hire business was established in 1988 as a general equipment rental company formed through a merger of St George Rentals, Abbott Hire and Stephen Donnelley Hire Group. In June 1997 National Hire became a publicly listed company on the ASX.

In March 2004, National Hire expanded its equipment fleet and branch network and rebranded its hire stores in New South Wales and the Australian Capital Territory to The CAT Rental Stores (via a

sub-licence arrangement from WesTrac). The expansion and CAT Rental Stores rebranding roll-out was funded by a $25 million share placement to WesTrac and borrowings. Following the share placement, WesTrac became the majority shareholder in National Hire with approximately 60% of the enlarged share base.

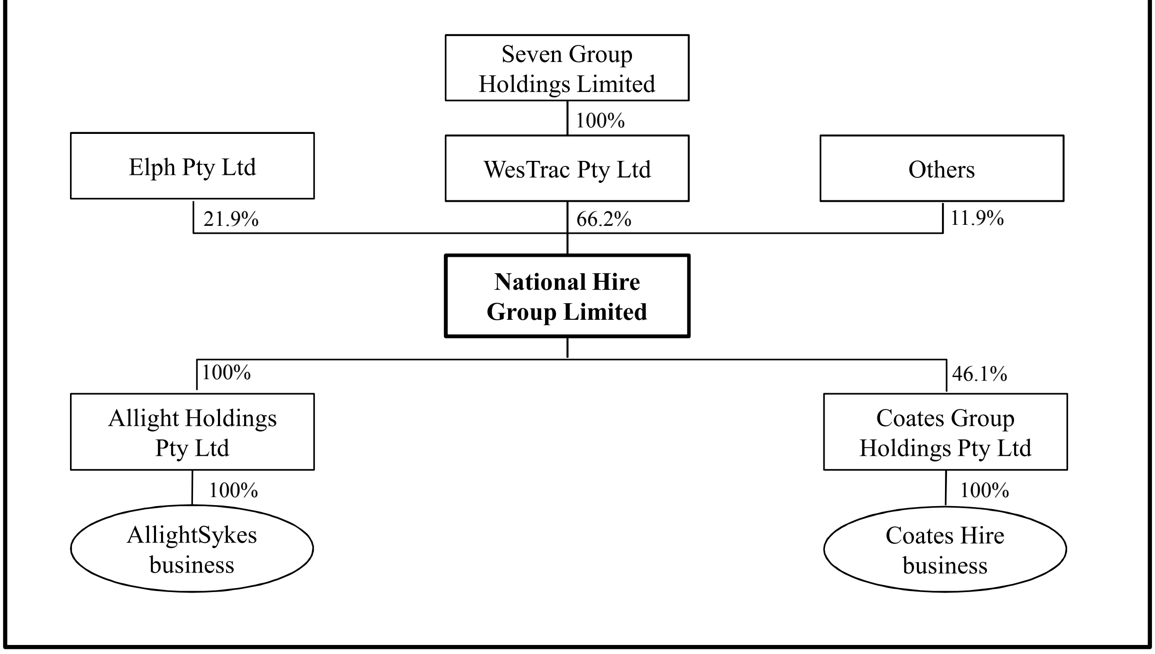
In December 2004, National Hire further expanded its equipment rental business through the acquisition of WesTrac's The CAT Rental Store's assets and branch network in Western Australia (including an extension of the sub-licence arrangements from WesTrac), and the acquisition of Allight Holdings Pty Limited, a mobile lighting tower manufacturer and a hirer and distributor of mobile lighting towers, generators, diesel engines and pump equipment. From 2005 to 2007 National Hire's rental business continued to grow both organically and through additional acquisitions.

In January 2008, Coates Group Holdings (a company established by a consortium comprising National Hire, Carlyle and certain financial investors) completed the acquisition of Coates Hire Limited, Australia's largest equipment hire company. As part of the transaction, National Hire transferred its equipment rental business plus $70 million in cash to Coates Group Holdings. National Hire completed an $86 million share placement to Elph to fund its contribution. Carlyle contributed $348 million to Coates Group Holdings. As a result of this transaction, National Hire received a 47.2% economic interest in Coates Hire's parent company, Coates Group Holdings (later reduced to 46.1%), and retained full ownership of Allight, its equipment manufacturing and distribution business. Coates Hire continues to be Australia's largest general equipment hire company.

In May 2010, SGH completed a merger with WesTrac's parent company, giving SGH a relevant interest in WesTrac's 66.2% shareholding in National Hire.

In November 2010, National Hire completed the acquisition of the Sykes Group business, a leading Australian pump manufacturer and distributor. This was a significant acquisition for Allight, providing it with additional scale and distribution opportunities through Sykes Group's existing domestic and international sales networks. Following the Sykes Group acquisition, National Hire's equipment manufacturing and distribution business was rebranded as AllightSykes and AllightPrimax.

The abridged corporate structure diagram below provides an overview of National Hire's current operating entities, major investments and shareholding structure immediately prior to the Offer.



Abridged National Hire Corporate Structure

4.4 Operations

(a) Coates Group Holdings

Coates Hire is Australia's largest equipment hire business and one of the 15 largest general equipment hire businesses globally. Coates Group Holdings and its subsidiaries employ over 2,700 people across Australia, New Zealand, Indonesia and the United Kingdom and has the following business units:

- **Coates Hire –** Coates Hire is the group's core business and comprises the Australian operations with over 200 branches across all states and territories. Whilst Coates Hire is leveraged to the mining and resources and construction sectors, it also supplies equipment to a variety of markets including engineering, manufacturing, government and events. Coates Hire's range of hire equipment includes compaction and access equipment, generators, lighting towers, air compressors, general pumps, ladders and scaffolding, traffic management, portable buildings and toilets, containers and other general tools and equipment.

  Over the past 18 months, Coates Hire has made numerous acquisitions of small hire companies to grow its business and expand its product offering. Most recently, Coates Hire has acquired the assets of Tru Blu Hire to increase its exposure to the growing market in Western Australia and increase its competitiveness in the small to large enterprise customer market.

- **Coates Indonesia** – Coates Indonesia services the Indonesian mining, oil and gas and civil construction sectors through the rental of power generators, air compressors, welding equipment, mobile lighting towers and dewatering pumps and the sale of Allight mobile lighting towers and Godwin pumps to companies and the government. Coates Indonesia has five branches in Indonesia located in Surabaya, Balikpapan, Sangetta, Sorowako and Pekanbaru, and has a head office in Jakarta.

- **Coates Offshore** - Based in the United Kingdom, Coates Offshore services the global offshore oil and gas industries in Europe and Asia Pacific through the provision of specialist air compressors, generators, welding and lighting equipment. Currently, approximately 50% of the Coates Offshore revenues come from oil and gas operations located in the North Sea. Coates Offshore's head office is in Aberdeen in the United Kingdom and it has operations and facilities in Great Yarmouth (United Kingdom), Norway, Netherlands, Brazil, Angola, Singapore, Indonesia and Australia.

(b) AllightSykes

AllightSykes is an Australian equipment manufacturer and distributor and is 100% owned by National Hire. AllightSykes engineers, assembles and distributes a range of mobile lighting towers and de-watering pump equipment, and is the Australian distributor of products from leading international equipment manufacturers including FG Wilson's generators, Perkins' diesel engines and Rotair's air compressors. AllightSykes is also the distributor of FG Wilson diesel generators in New Zealand and certain Pacific Island nations. AllightSykes operates an equipment service and support division for its manufactured and distributed products and for third party equipment domestically and distributes parts via its global dealer network.

AllightSykes employs over 350 people and has manufacturing facilities in Perth (Western Australia), Newcastle (New South Wales, Australia) and Dubai (United Arab Emirates). AllightSykes has sales distribution networks both domestically and internationally across the United Arab Emirates, Africa, Indonesia, the United States of America and New Zealand.

4.5 Financial position and results

(a) National Hire

The audited consolidated income statements of National Hire for FY2009 to FY2011 are summarised in the table below.

Year ended 30 June	2009 $000s	2010 $000s	2011[1] $000s
Revenue from continuing operations and other income (excl. interest income)	**106,169**	**86,560**	**135,125**
Cost of goods sold	(81,507)	(66,584)	(88,583)
Gross Income	**24,662**	**19,976**	**46,542**
Employee benefit expenses	(11,063)	(9,196)	(18,224)
Occupancy and communication	(2,656)	(2,969)	(4,910)
Travel and accommodation	(763)	(749)	(1,586)
Advertising and promotion	(396)	(692)	(1,641)
Other expenses	(2,936)	(3,352)	(9,790)
Earnings before interest, tax depreciation and amortisation	**6,848**	**3,018**	**10,391**
Depreciation and amortisation	(594)	(740)	(2,014)
Earnings before interest and tax	**6,254**	**2,278**	**8,377**
Interest income	698	444	559
Interest expense	(421)	(230)	(2,668)
Profit before tax from continuing operations	**6,531**	**2,492**	**6,268**
Income tax expense	(1,637)	(825)	(2,574)
Profit after tax from continuing operations	**4,894**	**1,667**	**3,694**
Share of net profit from Coates Group	20,155	4,103	22,816
Net profit after tax	**25,049**	**5,770**	**26,510**

Source: National Hire FY2010 annual report and audited FY2011 statutory financial statements

National Hire’s earnings performance fell in the 2010 financial year reflecting difficult trading conditions due partly to economic uncertainty globally and within Australia and associated deferral of capital expenditure in the Australian mining and resources sector. Despite the depressed earnings in FY2010, management focused on maintaining strong cash flow generation through improved working capital and inventory management.

National Hire's performance improved during the 2011 financial year, particularly through the second half, as confidence and economic conditions in the mining and resources sectors returned to pre-global financial crisis levels and the Sykes Group acquisition was completed in November 2010. Flowing from this National Hire’s revenue in the 2011 financial year grew by 56% on prior year levels and earnings before interest and tax grew by 268% over the same period. The net profit of National Hire for 2011 improved substantially on 2010, driven primarily by a significantly improved share of net profit from Coates Group Holdings (please refer to section 4.5(b) of this Target’s Statement for commentary on the financial performance of Coates Group Holdings).

The audited consolidated statements of financial position of National Hire as at 30 June 2009, 30 June 2010 and 30 June 2011 are summarised in the table below.

As at 30 June	**2009 $000s**	**2010 $000s**	**2011 $000s**
Current assets			
Cash and cash equivalents	5,694	15,697	6,662
Trade and other receivables	19,109	21,952	39,614
Inventories	41,538	35,494	79,278
Other	5,009	2,683	6
Total current assets	**71,350**	**75,826**	**125,560**
Non-current assets			
Receivables	42	42	-
Investments accounted for using the equity method	307,429	319,185	337,114
Property, plant and equipment	1,379	2,096	5,081
Deferred tax assets	-	2,885	-
Intangible assets	21,148	22,788	61,416
Total non-current assets	**329,998**	**346,996**	**403,611**
Total assets	**401,348**	**422,822**	**529,171**
Current liabilities			
Trade and other payables	24,039	39,006	37,202
Interest bearing loans and borrowings	-	346	51,934
Current tax liabilities	109	-	6,589
Provisions	326	308	10,516
Total current liabilities	**24,474**	**39,660**	**106,241**
Non-current liabilities			
Deferred tax liabilities	8,258	-	127
Interest bearing loans and borrowings	-	-	12,063
Provisions	177	156	2,643
Total non-current liabilities	**8,435**	**156**	**14,833**
Total liabilities	**32,909**	**39,816**	**121,074**
Net assets	**368,439**	**383,006**	**408,097**
Equity			
Contributed equity	293,771	293,771	293,930
Reserves	(12,582)	(2,526)	(4,104)
Retained earnings	87,250	91,761	118,271
Total equity	**368,439**	**383,006**	**408,097**

Source: National Hire FY2010 annual report and audited FY2011 statutory financial statements

At 30 June 2011, National Hire had total assets of $529 million and net assets of $408 million. National Hire's largest asset was its equity accounted investment in Coates Group Holdings of $337 million (which increased from $319 million as at 30 June 2010).

At 30 June 2011, National Hire had net debt of $57.3 million (compared to net cash of $15.4 million at 30 June 2010) comprising borrowings of $64.0 million and cash of $6.7 million. This increase in borrowings was due to the acquisition of Sykes Group which was funded from debt and existing cash reserves.

At 30 June 2011, National Hire had $10.5 million in current provisions of which $9.3 million represented the present value of deferred and contingent consideration payable to the vendor of the Sykes Group business that National Hire acquired on 23 November 2010. On or about 20 October 2011, National Hire will pay approximately $7.2 million of this deferred and contingent consideration. A further amount of up to $5 million may become payable to the vendor if AllightSykes satisfies certain EBIT hurdles before 31 December 2013.

(b) Coates Group Holdings

The audited income statements of Coates Group Holdings for FY2009 to FY2011 are summarised in the table below.

Year ended 30 June	2009 $000s	2010 $000s	2011 $000s
Revenue from continuing operations and other income (excl. interest income)	**973,226**	**879,041**	**1,058,586**
Cost of goods sold	(220,770)	(216,326)	(249,143)
Gross Income	**752,456**	**662,715**	**809,443**
Employee benefit expenses	(211,316)	(212,009)	(260,228)
Occupancy and communication	(44,577)	(49,802)	(53,523)
Advertising and promotion	(3,485)	(4,705)	(9,270)
Other expenses	(65,333)	(57,977)	(75,419)
Earnings before interest, tax depreciation and amortisation	**427,745**	**338,222**	**411,003**
Depreciation and amortisation	(180,535)	(170,672)	(186,088)
Earnings before interest and tax	**247,210**	**167,550**	**224,915**
Interest income	5,264	11,186	10,092
Interest expense	(212,031)	(167,270)	(161,773)
Profit before tax from continuing operations	**40,443**	**11,466**	**73,234**
Income tax expense	(8,705)	811	(25,217)
Profit after tax from continuing operations	**31,738**	**12,277**	**48,017**
Loss from discontinued operations	10,588	(3,376)	-
Net profit after tax	**42,326**	**8,901**	**48,017**

Source: Coates Group Holdings FY2010 and FY2011 statutory financial statements

Coates Group Holdings' earnings performance fell in the 2010 financial year reflecting difficult trading conditions resulting from deferral of capital expenditure in the Australian mining and construction sectors, which the Coates Hire business is leveraged to, and the closure of its Allied equipment business in April 2010 (producing a loss after tax of $3.4m). Despite the difficult trading conditions, the Coates Hire business continued to expand its operations with the launch of new radio, television and print advertising campaigns, and the acquisition of Monash Hire in June 2010 to enhance its footprint and product offering.

Coates Group Holdings experienced earnings growth in the 2011 financial year as trading conditions improved across all regions in Australia and confidence returned to the mining and resources sectors. Revenues grew by 20% while earnings before interest and tax grew by 34%. Coates Group Holdings also continued to grow the business through additional strategic acquisitions of hire businesses and

investment in significant capital expenditure to increase and revitalise its hire fleet to meet strengthening customer demand.

Since the acquisition of Coates Hire Limited in 2008, Coates Group Holdings has not declared or paid dividends as it has sought to pay down its existing debt in compliance with its obligations in its debt finance documents.

The audited statements of financial position of Coates Group Holdings for FY2009 to FY2011 are summarised in the table below.

As at 30 June	2009 $000s	2010 $000s	2011 $000s
Current assets			
Cash and cash equivalents	268,314	334,373	161,174
Trade and other receivables	181,056	175,940	214,222
Inventories	5,213	4,699	6,086
Other	74,479	937	-
Total current assets	**529,062**	**515,949**	**381,482**
Non-current assets			
Receivables	7,638	20,743	131
Property, plant and equipment	997,114	934,123	1,114,285
Deferred tax assets	24,645	12,340	6,260
Intangible assets	1,360,417	1,360,944	1,375,076
Other	3,427	391	284
Total non-current assets	**2,393,241**	**2,328,541**	**2,496,036**
Total assets	**2,922,303**	**2,844,490**	**2,877,518**
Current liabilities			
Trade and other payables	114,285	143,284	219,913
Interest bearing loans and borrowings	6,892	306	19,776
Current tax liabilities	-	-	705
Provisions	29,502	29,710	34,725
Other	33,548	9,545	-
Total current liabilities	**184,227**	**182,845**	**275,119**
Non-current liabilities			
Trade and other payables	5,486	7,648	2,620
Interest bearing loans and borrowings	1,968,068	1,875,366	1,769,471
Provisions	4,554	4,757	5,568
Other	13,561	-	5,478
Total non-current liabilities	**1,991,669**	**1,887,771**	**1,783,137**
Total liabilities	**2,175,896**	**2,070,616**	**2,058,256**
Net assets	**746,407**	**773,874**	**819,262**
Equity			
Contributed equity	732,834	732,834	732,834
Reserves	(29,939)	(11,373)	(14,002)
Retained earnings	43,512	52,413	100,430
Total equity	**746,407**	**773,874**	**819,262**

Source: Coates Group Holdings FY2010 and FY2011statutory financial statements

At 30 June 2011, Coates Group Holdings had total assets of $2,878 million and net assets of $819 million. Coates Group Holding's largest asset was its goodwill intangible asset of $1,270 million followed by its property, plant and equipment of $1,114 million.

At 30 June 2011, Coates Group Holdings had a net senior debt position of $1,628 million (which increased from $1,541 million at 30 June 2010) comprising borrowings of $1,789 million net of cash balances of $161 million. The reduction in cash balances was used to fund new hire fleet to meet strengthening customer demand.

4.6 Outlook

(a) Positive short to medium term outlook

National Hire continues to have an optimistic outlook for the 2012 financial year based on trading for the three months to September and the AllightSykes forward order book through until December 2011. The main driver of this improved outlook is trading conditions in the mining and non-residential construction sectors to which National Hire's businesses are highly leveraged. In its 2011 preliminary final report (released to ASX on 23 August 2011), National Hire noted:

- the global mining industry had returned to more buoyant market conditions as new mining projects were continuing to be announced and existing miners were increasing production in response to strong global demand and favourable commodity prices; and

- Coates Group Holdings had also benefited from improved conditions in the civil construction sector.

Reflecting this improved outlook, National Hire provided an earnings update on 9 September 2011 stating that net profit after tax for the first half of the 2012 financial year is estimated to exceed the first half of the 2011 financial year ($18 million to $24 million in the first half of the 2012 financial year as compared with $10.3 million in the first half of the 2011 financial year). This update assumed a continuation of current trading conditions for the balance of the financial year in both Coates Hire and AllightSykes and no other unexpected events.

Since the 9 September 2011 earnings update, National Hire's businesses have continued to experience positive trading conditions.

(b) Growth initiatives

The Sykes Group acquisition was a transformational transaction for the Allight business. The combined AllightSykes business has greater scale and operating leverage, a broader product offering and increased distribution capability both in Australia and overseas. From this expanded operational base, AllightSykes is pursuing the following growth initiatives:

- **Overseas distribution expansion** - AllightSykes is in the process of expanding its foreign operations in Africa and the United States of America, alongside Sykes' existing distribution networks in the UAE, Indonesia and New Zealand, and leveraging its expanded product offering in regions with high mining activity.

- **Merger integration** - AllightSykes has completed the first phase of integration of the Sykes Group business which has resulted in a number of merger benefits, including improved margins for the overall business now that it manufactures two of its key product lines. It is expected that economy of scale synergies from the Sykes Group acquisition will continue to have a positive impact on earnings during the 2012 financial year.

- **Optimising manufacturing operations** – a key longer term initiative for the business is to optimise its manufacturing base for its lighting towers and pumps. AllightSykes is currently reviewing its options in this regard.

National Hire expects that Coates Group Holdings is likely to take advantage of the stronger trading conditions by continuing with the following initiatives:

- **Fleet expansion and accretive acquisitions** – Coates Hire is in the process of expanding its equipment fleet in core product segments to meet increasing customer demand and will consider further accretive acquisitions should they become available.

- **Target large projects** - Coates Hire intends to continue to target large scale mining and oil and gas projects across Australia.

- **New strategic offering -** the addition of Tru Blu to the rental portfolio is intended to drive a new strategic growth platform for Coates Hire in Western Australia in the small to medium enterprise segment which has the potential to augment earnings in forthcoming periods.

(c) Global market conditions

There remains considerable uncertainty surrounding global markets and what impact this will have on the industries and sectors to which National Hire's businesses are exposed. The key issues remain the European debt crisis and whether the Chinese economy will continue to announce positive economic results which in turn will continue to support buoyant commodity prices and activity in the global mining industry.

National Hire is confident that the management of AllightSykes and Coates Hire have put in place the appropriate measures to take advantage of positive economic conditions, should they continue.

4.7 No change in financial position

Within the knowledge of each of the Directors, the financial position of National Hire has not materially changed between 30 June 2011 and the date of this Target's Statement, other than as disclosed to the market in releases prior to the date of this Target's Statement and in respect of the fact that drawdown has occurred under the new debt finance facility with Australia and New Zealand Banking Group Limited.

4.8 Issued capital

(a) Shares

As at the date of this Target's Statement, National Hire's issued capital consisted of 148,487,945 Shares, which are held by approximately 880 Shareholders. All Shares carry one vote per Share and carry the right to receive dividends when declared.

The Offer extends to all Shares in which SGH or its associates do not have a relevant interest including Shares that are issued during the Offer Period due to the conversion of Options or otherwise.

(b) Options

As at the date of this Target's Statement, National Hire has issued 1,000,000 Options which are held by Mr Andrew Aitken in accordance with the National Hire Group Limited 2005 Share Option Plan (see (c) below). These Options have an exercise price of $2.00 per Option and expire on 21 November 2013.

(c) Incentive plans

National Hire currently has two employee incentive plans with participants: the National Hire Group Limited 2005 Share Option Plan (**Option Plan**) and a retention and salary sacrifice scheme under the rules of the National Hire Group Limited Deferred Employee Share Plan (**Deferred Employee Share Plan**):

- **Option Plan –** The Option Plan is designed to provide long-term incentives for senior management (including executive directors) to deliver long-term shareholder returns. Under the plan, participants are granted options which only become exercisable if certain performance standards are met. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Options are granted under the plan for no consideration. Options granted under the plan carry no dividend or voting rights. When exercisable, each Option is convertible into one Share.

- **Deferred Employee Share Plan** – Under the retention bonus program, National Hire issued 857,045 Shares at a post consolidation issue price of $2.20 each to 66 group employees. The rights to these Shares vested with the employees in December 2006 provided they remained employed with the group. Employees were also offered the opportunity to participate in a salary sacrifice scheme pursuant to which Shares were acquired on-market at regular intervals on behalf of those participants. The last occasion on which shares were acquired on-market on behalf of participants in the salary sacrifice scheme was in April 2009. There are currently 88,420 Shares held subject to the terms of the Deferred Employee Share Plan.[8] If you hold Shares subject to the Deferred Employee Share Plan refer to sections 7.2 and 8.2 for further information. You will also receive a letter in the post explaining how you can accept the Shares under the Offer. There are 143,634 Shares that have been forfeited under the Deferred Employee Share Plan held by the plan administrator to be dealt with at the direction of the Board pursuant to the terms of the Deferred Employee Share Plan.

(d) Performance rights

National Hire proposes to include a resolution at its annual general meeting on 24 November 2011 to approve the grant of 300,000 performance rights to the Managing Director of National Hire, Mr Andrew Aitken, in accordance with the National Hire long term incentive plan which was adopted in October 2011. Each performance right entitles Mr Aitken to one fully paid Share at no cost, subject to the satisfaction of certain performance conditions. Since the Offer is unconditional, if the issue of the performance rights to Mr Aitken is approved at the annual general meeting on 24 November 2011, this will not trigger any defeating or other condition under the Offer.

(e) Effect of the Offer on Options

Option holders who are entitled (or who become entitled) to exercise their Options during the Offer Period and who do in fact exercise such Options will be able to accept the Offer in respect of the Shares which they are issued.

Seven has stated that it may seek to acquire Options by agreement. If not all of the Options are acquired by Seven or cancelled pursuant to agreements or other arrangements, and Seven is entitled to compulsorily acquire any outstanding Shares, Seven has indicated in its Bidder's Statement that it presently intends to seek to compulsorily acquire or cancel any outstanding Options pursuant to Part 6A.2 of the Corporations Act, although it reserves the right not to do so.

[8] Of the 88,420 Shares, 69,772 Shares were issued under the retention bonus scheme and 18,648 Shares issued under the salary sacrifice program.

(f) Seven's relevant interests in National Hire

As at 14 October 2011, Seven and its associates had a relevant interest in 99,209,367 Shares, and voting power in National Hire of 66.81%.

(g) Substantial holders

The names of substantial Shareholders who have notified National Hire in accordance with section 671B of the Corporations Act as at the date of this Target's Statement are set out below together with their interests as at the date when the relevant notification was given.

Shareholder	Voting Power in National Hire	
SGH (via WesTrac)	98,300,404	66.2%
Elph	32,559,745	21.9%

4.9 Exit mechanisms in relation to Coates investment

National Hire currently has a 46.1% economic interest in Coates Group Holdings. Coates Group Holdings is a holding company whose subsidiaries own and operate the Coates Hire business (being the combination of the hire business formerly owned by National Hire and the hire business formerly owned by Coates Hire Limited). National Hire's investment in Coates Group Holdings is governed by the terms of the Investment Deed.

Both Carlyle and National Hire are presently entitled to exit their investment in Coates Group Holdings in accordance with the terms of the Investment Deed. The Investment Deed includes a detailed regime which sets out how, and the circumstances in which, both National Hire and Carlyle may sell their interests in Coates Group Holdings (**Exit Mechanisms**). The Board has not considered whether or not National Hire may wish to exit its investment in Coates Group Holdings and is unaware of any current proposal from Carlyle to exit its investment in Coates Group Holdings. However, it is important for Shareholders to be aware of these mechanisms so that they understand National Hire's rights and obligations in the event that National Hire, Carlyle or both National Hire and Carlyle wish to sell their interests in Coates Group Holdings, as these rights and obligations may impact Shareholders' assessment of the value of Shares.

As at the date of this Target's Statement, National Hire is not aware of any proposal from Carlyle to sell its interests in Coates Group Holdings. National Hire itself has no current intention to sell its interests in Coates Group Holdings.

The Exit Mechanisms include:

- pre-emptive, call option or purchase rights so that if either National Hire or Carlyle (each an **Investor**) wishes to sells its interests in Coates Group Holdings to a third party or list them on a stock exchange it must first offer the interests to the other Investor;

- drag-along rights under which, subject to certain conditions being satisfied including the pre-emptive and other available rights not being exercised by the other Investor, either Investor can require the other Investor to sell all of its interest in Coates Group Holdings to a third party on the same price and terms as the Investor has obtained for the sale of its own interest in Coates Group Holdings; and

- tag-along rights under which, subject to certain conditions being satisfied including the pre-emptive and other available rights not being exercised by that Investor, an Investor can insist on selling all of its interest in Coates Group Holdings to a third party buyer on the same price and terms as the other Investor has negotiated.

Further details in respect of these mechanisms are set out below.

(a) Exit relating to a listing proposal

Provided it has not less than 33.3% of Coates Group Holdings' equity securities collectively held by National Hire and Carlyle, either National Hire or Carlyle may seek to initiate a process in which Coates Group Holdings (or a subsidiary or alternative holding vehicle) may be listed on ASX or another recognised investment exchange and securities in that vehicle quoted. The implementation of a listing in these circumstances is subject to various conditions and restrictions including final approval by a nominee of National Hire and a nominee of Carlyle. To obtain this final approval, one Investor must issue the other a listing implementation notice. This is a formal request to the recipient for Investor approval and the recipient may give or withhold its approval at its discretion.

Purchase rights

At the same time as the listing implementation notice is given Investor approval, the recipient will be deemed to be given the option to purchase the requesting Investor's securities the subject of the listing proposal at the price determined out of a bookbuild process.

In the case where National Hire is the recipient of the listing implementation notice and the purchase rights option, it can choose to:

- exercise the option in which case it, or its nominee, would buy all of Carlyle's interest that was intended to be listed and the listing proposal will not be implemented; or

- not exercise the option in which case the listing proposal may be implemented according to the terms agreed between National Hire and Carlyle.

(b) Exit following a sale initiation

National Hire or Carlyle may seek to initiate a process in which they sell their interest in Coates Group Holdings to a third party under the Exit Mechanisms. This will require the Investor seeking to exit (**Selling Investor**) to first notify the other Investor (**Holding Investor**) in writing that it wishes to sell all (but not some) of its interest in Coates Group Holdings. The Selling Investor's sale notice must specify (among other things) the sale price and the terms on which the Selling Investor proposes to sell the securities.

Pre-emptive rights

At the same time as the Holding Investor receives the sale notice it will also be given the option to purchase (or find a nominee to purchase) all (but not some only) of the nominated securities on the terms and conditions specified in the Selling Investor's notice (**Call Option**). The Call Option can only be exercised for a limited time.

In the case where National Hire is the Holding Investor it can choose to:

- exercise the Call Option in which case it, or its nominee, would buy all of Carlyle's interest in Coates Group Holdings at the price set out in the sale notice; or

- not exercise the Call Option in which case Carlyle would be permitted to negotiate with third party buyers with the possibility that National Hire would be required to sell its interest following an exercise of the drag-along rights or could participate in a sale of its interest under the tag-along rights (both described below).

Sale to third party

If the Call Option is not exercised, the Selling Investor may only agree to a sale with a third party buyer provided that certain conditions are satisfied including the sale being for not less than 97.5% of the sale price per security under the Call Option and on terms no less favourable than those originally offered pursuant to the Call Option.

If these conditions are satisfied, the Selling Investor will be able to conclude the sale provided that certain additional conditions are satisfied including that the sale is completed within a prescribed period of 120 days from when the process was originally instigated.

Before the execution of sale documentation with a third party buyer, the Selling Investor must provide the Holding Investor with written notice (**Second Sale Notice**) which provides the Holding Investor with certain information including:

- the sale price for each security; and

- the identity of the third party buyer and a copy of the relevant sale agreement.

Drag-along rights

The Second Sale Notice may also include a statement to the Holding Investor confirming that it requires the Holding Investor to sell all of its securities on the same terms to the same buyer under the Selling Investor's drag-along rights. Drag-along rights can be exercised by the Selling Investor provided that:

- the Selling Investor holds at least 33.3% of Coates Group Holdings' equity securities collectively held by the Selling Investor and the Holding Investor; and

- the Holding Investor is not required to provide any warranties other than title, capacity and their securities in Coates Group Holdings being sold unencumbered.

In the case where National Hire is the Holding Investor and Carlyle exercises its drag-along rights, National Hire will be required to sell its interest in Coates Group Holdings to the third party buyer. National Hire will receive the same price for each security and same terms of sale as Carlyle has negotiated for itself.

If, alternatively, National Hire was the Selling Investor and exercised its drag-along rights, Carlyle would be required to sell its interest on the same terms to the same buyer.

Tag-along rights

The Second Sale Notice must also include a statement confirming that the Holding Investor has 'tag-along' rights to sell all of its securities on the same terms to the same buyer as set out in the Second Sale Notice.

In the case where National Hire is the Holding Investor it can elect to exercise its tag-along rights, and sell its interest in Coates Group Holdings to the third party buyer on the terms set out in the Second Sale Notice.

If alternatively National Hire was the Selling Investor and Carlyle exercised its tag-along rights, National Hire could only complete the sale if it procures the third party buyer to purchase all of Carlyle's securities.

(c) Exit following a breach of consortium arrangements

National Hire and Carlyle have rights to require the other Investor to exit their interest in Coates Group Holdings if the other Investor has breached certain prescribed obligations under the Investment Deed.

In these circumstances, the non-defaulting party may:

- purchase all of the interest of the defaulting party to an amount equal to the fair value of the interest (as determined by an independent valuer) less 10%; or
- commence the sale initiation process (described in section 6.5(a)(ii)) to find a third party buyer to acquire the defaulting party's interest.

These rights may be exercised at any time. However, National Hire intends to comply with its obligations under the Investment Deed so that these rights will not be triggered resulting in a disposal of its interests in Coates Group Holdings.

(d) Minority interests in Coates Group Holdings

Financial investors and Coates Hire management hold the remaining 7.8% economic interest in Coates Group Holdings. These investors do not have any pre-emptive, call-option or purchase rights to acquire National Hire's or Carlyle's interest in Coates Group Holdings. However, these investors have the right to tag-along with any sale to a third party buyer on the same price and terms as a Selling Investor has negotiated. The Selling Investor will also be able to require the financial investors to sell their interest to a third party buyer under the Selling Investor's drag-along rights.

In addition, the Supply Agreement may be terminated by any party to it on 12 months' written notice:

- if National Hire or Carlyle's interest in Coates Group Holdings is reduced to 0%; or
- following an initial public offering of either Coates Group Holdings or Coates Hire.

(e) Exit scenarios

The main exit scenarios and resultant impact on National Hire are:

Exit scenario	Likely impact on National Hire
National Hire exercises its pre-emptive, call option or purchase rights and acquires Carlyle's interest in Coates Group Holdings	National Hire would assume Carlyle's interest in Coates Group Holdings and Shareholders would be entitled to an increased share of the revenues and earnings of Coates Group Holdings. National Hire would also control the board of Coates Group Holdings and each subsidiary company.

	National Hire would no longer equity account for its interests in Coates Group Holdings and would consolidate Coates Group Holdings' financial results in its own accounts. National Hire would need to raise additional capital to fund the acquisition of the additional interests, which would likely be in the form of equity and/or debt fund raisings (subject to all necessary regulatory and Shareholder approvals).
National Hire procures an alternative purchaser for Carlyle's interest in Coates Group Holdings	There would be no change to National Hire's economic interest in Coates Group Holdings or its board representation and Investor approval rights. Depending on the method of sale of the third party interests, a new investment deed may need to be entered into with the acquiring party (or parties). National Hire may also elect to terminate the Supply Agreement on 12 months' notice in these circumstances. It would do so if this was determined to be in the Shareholders' best interest.
National Hire does not acquire, or procure an alternative purchaser to acquire, Carlyle's interest in Coates Group Holdings and a third party buyer is found Pursuant to its rights under the Investment Deed, Carlyle exercises its right to 'drag' National Hire along in a sale of Coates Group Holdings or National Hire considers the potential exit terms sufficiently attractive so that it wishes to exit along with Carlyle and exercises its right to 'tag-along' in a sale	National Hire's interest in Coates Group Holdings would be sold under the terms of the Investment Deed and National Hire would receive consideration from the acquirer. Depending on National Hire's growth strategy at the time and the nature of the consideration (cash or securities in another entity), National Hire would either invest, retain or return some or all of the proceeds to Shareholders. National Hire may also elect to terminate the Supply Agreement on 12 months' notice in these circumstances. It would do so if this was determined to be in the Shareholders' best interest.
National Hire exercises its purchase rights in relation to a listing proposal and acquires the interests in Coates Group Holdings that Carlyle wishes to sell under the listing proposal	National Hire would increase its ownership of Coates Group Holdings and, depending on Carlyle's proposed sell down, may assume 100% ownership of Coates Group Holdings. In this case, Shareholders would be entitled to up to 100% of the revenues and earnings of Coates Group Holdings. If this occurred, National Hire would obtain increased representation rights on the boards of Coates Group Holdings and its subsidiaries.

	National Hire would need to raise additional capital to fund the acquisition of the additional interests, which would likely be in the form of equity and/or debt fund raisings (subject to all necessary regulatory and Shareholder approvals).
National Hire sells its interest in Coates Group Holdings	National Hire's interest in Coates Group Holdings would be sold under the terms of the Investment Deed and National Hire would receive consideration from the acquirer. Depending on National Hire's growth strategy at the time and the nature of the consideration (cash or securities in another entity) National Hire would either invest, retain or return some or all of the proceeds to Shareholders. National Hire may also elect to terminate the Supply Agreement on 12 months' notice in these circumstances. It would do so if this was determined to be in the Shareholders' best interest. Caterpillar S.A.R.L Singapore Branch (**Caterpillar**) has consented to WesTrac appointing one or more wholly owned subsidiaries of Coates Hire to operate The Cat Rental Stores in Western Australia, New South Wales and the Australian Capital Territory. This arrangement requires (among other things) National Hire to maintain not less than 50% voting power in Coates Group Holdings; Coates Hire remaining a wholly owned subsidiary of Coates Group Holdings and WesTrac holding at least 51% of the voting power in National Hire or having the power to direct the management or policies of National Hire or control the membership of the Board.

Any decision by National Hire in relation to the Exit Mechanisms will be influenced by a number of factors prevailing at the time. These may include:

- the growth of Coates Group Holdings during the co-investment period with Carlyle. Please refer to the financial information in sections 4.5 and 4.6 of this Target's Statement for details of the financial performance and outlook of Coates Hire;
- the growth of the AllightSykes business during the co-investment period with Carlyle. Please refer to the financial information in sections 4.5 and 4.6 for details of the financial performance and outlook for AllightSykes;
- the price at which one or more third party buyers are willing to acquire interests in Coates Group Holdings and how this compares with National Hire's assessment of value;

- National Hire's access to equity and debt financing and what effect those arrangements may have on the financial position of National Hire and on Shareholders;
- the effect of an alternate joint venture party on the operation of Coates Group Holdings and how the working relationship between this party and National Hire would be anticipated to operate; and
- the availability or likelihood of other investment opportunities at the time or in the future.

A careful assessment of this type of information would be undertaken by the Directors at the time so that they can ensure that they pursue the alternative that they consider is in the best interests of Shareholders.

4.10 No Litigation

Neither National Hire nor its Subsidiaries are involved in any material disputes or litigation as at the date of this Target's Statement.

4.11 Publicly available information about National Hire

National Hire is a listed disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, as a listed company, National Hire is subject to the ASX Listing Rules which require continuous disclosure of any information National Hire has concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.

Copies of documents filed with ASX may be obtained from the ASX website at www.asx.com.au or from the National Hire website at www.nationalhire.com.au. In addition, National Hire and Coates Group Holdings are required to lodge various documents with ASIC. Copies of documents lodged with ASIC by National Hire or Coates Group Holdings may be obtained from, or inspected at, an ASIC office.

A list of the announcements made by National Hire to the ASX between 30 September 2010 (being the date of lodgement of National Hire's last Annual Report with ASX) and the date of this Target's Statement is included in Annex B. Copies of these documents are available from the ASX website at www.asx.com.au.

5. DIRECTORS' INTERESTS

5.1 Independent Board Committee and Protocols

As noted in section 1.1 of this Target's Statement, the Independent Board Committee has established protocols to ensure that consideration of the Offer has been subject to appropriate controls and that any potential conflicts of interest have been managed. This has included:

- the Independent Board Committee being exclusively responsible for all decisions connected to the Offer. The Independent Board Committee excludes all other Directors being the Hon. Richard Court, AC, Mr Andrew Aitken and Mr James Walker, each of whom is or considers himself to be connected with SGH[9] (**Connected Directors**);

- each of the Connected Directors has absented himself from any deliberations of the Board with respect to any matters in relation to the Offer. None of these directors will make a recommendation in respect of the Offer;

- protocols for the Directors and managers of National Hire in relation to the provision of information to and communications with SGH and the Independent Expert; and

- the Independent Board Committee appointing Grant Samuel to act as its financial adviser, Allen & Overy to act as its legal adviser in respect of the Offer and Deloitte to prepare an independent expert's report evaluating the Offer.

5.2 Directors' interests

(a) Interests in Shares and Options

As at the date of this Target's Statement, the Directors had the following relevant interests in Shares and Options and has confirmed, in the case where the relevant Director has a relevant interest in Shares or Options, that he intends to take the action (or procure taking of the action) noted in the table below in respect of those relevant interests.

Name of Director	Shares	Options	Action to be taken in relation to the Offer
Hon. Richard Court, AC	–	–	–
Andrew Aitken	–	1,000,000	Mr Aitken does not intend to exercise any Options held by him and accordingly, would not be in a position to accept or reject the Offer in respect of any Shares issued as result of the exercise of those Options

9 Mr Court is a director of WesTrac, which is a wholly owned subsidiary of SGH, and a consultant to ACE, which is a private company associated with Mr Kerry Stokes, who controls SGH Mr Walker is the Chief Executive Officer of WesTrac and a director of SGH. Mr Aitken has a long standing employment relationship with ACE.

Name of Director	Shares	Options	Action to be taken in relation to the Offer
Stephen Donnelley	1,991,877	–	Mr Donnelley has not made any decision whether he would accept (or procure the acceptance of) the Offer in respect of all Shares held by Stirhill at either the General Offer Price of $3.00 per Share or the Incremental Offer Price of $3.60 per Share.
Dale Elphinstone	32,559,745	–	Mr Elphinstone intends to reject (or procure the rejection of) the Offer in respect of all Shares held by Elph where Elph is only assured of receiving $3.00 per Share. Elph has not made any decision whether it would accept the Incremental Offer Price, or accept the Offer in circumstances where its acceptance would satisfy the threshold for the Incremental Offer Price.
Clive Isenberg	–	–	–
James Walker	–	–	–

(b) Interests in SGH securities

As at the date of this Target's Statement, the Directors had the following relevant interests in SGH Shares and SGH Options.

Name of Director	SGH Shares	Other SGH securities
Hon. Richard Court, AC	2,200	–
Andrew Aitken	–	–

Name of Director	SGH Shares	Other SGH securities
Stephen Donnelley	3,000	–
Dale Elphinstone	72,500	–
Clive Isenberg	–	–
James Walker	132,162	–

(c) Officer's indemnity and insurance

To the extent permitted by law, National Hire indemnifies every person who is or has been an officer of National Hire against:

- any liability (other than legal costs) incurred by that person as an officer of National Hire (including liabilities incurred by the officer as an officer of a subsidiary of National Hire where National Hire requested the officer to accept that appointment); and
- reasonable legal costs incurred in defending an action for a liability incurred or allegedly incurred by that person as an officer of National Hire (including such legal costs incurred by the officer as an officer of a subsidiary of National Hire where National Hire requested the officer to accept that appointment).

National Hire currently holds a directors and officers liability insurance policy with a recognised insurer.

(d) Retirement benefits/termination benefits

As a result of the Offer, no person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from a board or managerial office of National Hire or Related Body Corporate of National Hire

(e) Other benefits

Except as set out in this Target's Statement:

- none of the Directors has agreed to receive, or is entitled to receive, any benefit from SGH which is conditional on, or is related to, the Offer, other than in their capacity as Shareholder; and
- there are no agreements made between any Director and any other person in connection with, or conditional upon, the outcome of the Offer other than in their capacity as a Shareholder.

(f) Interests of Directors in contracts with SGH

None of the Directors has any interest in any contract entered into by SGH, other than in their capacity as a shareholder, or in the case of the non-Independent Directors:

- for the Hon. Richard Court, AC, in his capacity as director of WesTrac, which is a wholly owned subsidiary of SGH, as chairman of Channel 7 Telethon Trust and in his capacity as a consultant to ACE, which is a private company associated with Mr Kerry Stokes, who controls SGH;
- for Mr Andrew Aitken, in his capacity as an employee of ACE; and
- for Mr James Walker, in his capacity as CEO of WesTrac and director of SGH.

(g) Dealings in Shares

No Director acquired or disposed of a relevant interest in any Share in the four month period ending on the date immediately before the date of this Target's Statement.

6. PROFILE OF SEVEN

6.1 Seven

Seven is a wholly-owned subsidiary of SGH, an ASX-listed Australian diversified operating and investment group. SGH shareholders have exposure to a number of media assets as well as WesTrac Holdings Pty Limited. SGH, through its wholly-owned subsidiary WesTrac, currently holds 66.2% of all Shares.

Shareholders should refer to section 2 of the Bidder's Statement for further information in relation to Seven and SGH.

6.2 Seven's intentions

Seven's intentions in relation to National Hire, in the event that National Hire becomes a wholly owned controlled entity or if it remains a part owned controlled entity, are set out in section 6 of the Bidder's Statement.

Since the date of its Bidder's Statement, the Board of National Hire resolved to add a delisting resolution to the resolutions to be considered at the annual general meeting to be held on 24 November 2011. Please refer to section 1.6(b) for further information in relation to delisting and this delisting proposal.

If National Hire was to be delisted and Seven's intentions in relation to dividends were implemented, the nature of your investment in National Hire may be different as you would hold Shares in an unlisted company with less ability to monetise your investment in circumstances where no dividends may be payable in the foreseeable future.

Seven's intentions in relation to the payment of dividends (see section 1.6(d) of this Target's Statement for further details) and the proposal to delist National Hire (see section 1.6(b) of this Target's Statement for further details) in the event that National Hire remains a part owned controlled entity are set out in section 6.4(b) and 6.4(a) of the Bidder's Statement respectively. Shareholders should note that there is a real possibility of delisting and refer to section 1.6(b) of this Target's Statement for further information on the implications of delisting.

6.3 Seven's funding

A description of Seven's funding arrangements in respect of the Offer Consideration is set out in Section 5 of the Bidder's Statement.

7. TAXATION CONSEQUENCES

7.1 Australian taxation summary

The information contained in this tax summary is of a general nature only. It is not intended to be either legal or tax advice and will not address all of the tax issues that may be relevant to you if you dispose of your Shares. You should obtain independent tax advice relevant to your own particular facts and circumstances including the Australian taxation consequences of accepting the Offer.

If you are a non-resident of Australia for tax purposes you should also take into account the tax consequences that arise in your country of tax residence as well as under Australian law.

This is a summary of the key Australian income tax, capital gains tax (**CGT**), goods and services tax (**GST**) and stamp duty implications that may arise for you if you sell your Shares to Seven for the Offer Price. This summary is based on the Australian tax laws that are currently in force as at the date of this Target's Statement. This summary is also based on relevant current administrative practices.

This taxation summary only summarises the tax consequences for you and your Shares if you hold your Shares on capital account. It does not address the tax consequences for you:

(a) if you acquired your Shares before 20 September 1985;

(b) if you acquired your Shares in the course of carrying on a business or for the purpose of resale at a profit (eg you are engaged in a business of trading or investment, or you are a bank or insurance company) or you are subject to the taxation of financial arrangements provisions in Division 230 of the Income Tax Assessment Act 1997 in respect of your Shares;

(c) if you are a tax exempt organisation; and

(d) if you are not a tax resident of Australia and (together with your associates) you held 10% or more of all Shares either at the time of your CGT event (see below) or throughout a 12 month period in the 24 months before your CGT event.

If one or more of the paragraphs (a) to (d) above apply to you, you should obtain your own independent tax advice.

7.2 Disposal of Shares issued under the Deferred Employee Share Plan

This section 7.2 only applies to Shares which were issued under the Deferred Employee Share Plan. Other Shareholders should refer to section 7.3.

Special rules in the former Division 13A of the Income Tax Assessment Act 1936 apply to determine the amount on which you are taxed, and the timing of your taxation, in respect of those Shares.

As part of the retention bonus scheme, Shares under the Deferred Employee Share Plan were issued in January 2005 and vested with the National Hire employees in December 2006. Under the terms of that plan, those Shares can be withdrawn from the Deferred Employee Share Plan at any time after December 2006. Employees were also offered the opportunity to participate in a salary sacrifice scheme under the Deferred Employee Share Plan pursuant to which Shares were acquired on-market at regular intervals on behalf of those participants. The last occasion on which Shares were acquired

on-market on behalf of participants in the salary sacrifice scheme was in April 2009, and all Shares acquired under the salary sacrifice scheme have been capable of being withdrawn from the Deferred Employee Share Plan from May 2010 at the latest.

The taxation consequences for employees who acquired shares under the Deferred Employee Share Plan is set out below, on the basis that they did not elect to be taxed upfront on the grant of their Shares. If you acquired Shares under the Deferred Employee Share Plan and did make an election to be taxed upfront on the grant of those Shares, you should obtain your own independent tax advice.

If you dispose of your Shares to Seven within 30 days of their withdrawal from the Deferred Employee Share Plan, then no amount should be included within your assessable income at the time of withdrawal under Division 13A. Instead, you should include the full amount of the proceeds from the disposal of those Shares to Seven in your assessable income under Division 13A at the time of the disposal of those shares to Seven. There will be no capital gains tax implications of a disposal of those Shares. The time of disposal of your Shares to Seven will be either:

(a) if you accept the Offer – the date the Offer is accepted by you; or

(b) if you reject the Offer and your Shares are compulsorily acquired the date Seven becomes the owner of your Shares.

If you do not dispose of those Shares to Seven within 30 days of their withdrawal from the Deferred Employee Share Plan:

- you should include the market value of the Shares at the time of withdrawal in your assessable income at that time;
- for these purposes, the market value of those shares may be based on the volume weighted average of the prices at which the Shares were traded on the ASX during the one week period up to and including the day of withdrawal;
- the disposal of your Shares to Seven will be taxable under the capital gains tax provisions, which will apply to determine the time of disposal and the amount or gain or loss – in this regard the treatment described in section 7.3 below will apply to you; and
- (although not specifically provided for in the capital gains tax provisions) the better view for these purposes is that your cost base in those Shares should be considered to be equal to the market value of those Shares as described in above and the date of acquisition of those Shares for capital gains tax purposes would be the date of issue of those Shares, not the date of withdrawal of the Shares from the Deferred Employee Share Plan.

7.3 Capital gains tax implications of a disposal of your Shares to Seven

(a) Australian Tax Resident Shareholders

If your Shares are transferred to Seven this will be a CGT event for Australian CGT purposes. In this event, the disposal of your Shares will have certain CGT implications for you.

The time of your CGT event will be one of the following times:

(a) if you accept the Offer - the date the Offer is accepted by you; or

(b) if you reject the Offer and your Shares are compulsorily acquired the date Seven becomes the owner of your Shares.

You may make a capital gain or capital loss on the disposal of your Shares to Seven depending on the total consideration that you receive for the disposal of your Shares and the CGT cost base or reduced cost base of your Shares. As discussed above, the total consideration you will receive for each Share may be either $3.00 or $3.60, depending on whether certain conditions are met.

You will have a capital gain from the disposal of your Shares if the Offer Price exceeds the cost base in your Shares. You will have a capital loss if the Offer Price is less than the reduced cost base of your Shares. (As noted in section 7.2 above, any disposal of Shares acquired under the Deferred Employee Share Plan within 30 days of their withdrawal from that plan will not have any capital gains tax implications).

Generally, the cost base or reduced cost base of your Shares for CGT purposes will include, among other things, the amount paid to acquire your Shares and any other incidental costs. Determination of the cost base of any Shares that were withdrawn from the Deferred Employee Share Plan more than 30 days before their time of disposal is discussed in section 7.2 above.

If you make a capital gain from the disposal of your Shares, that capital gain will be combined with any other capital gains you have made for the income year, then the total will be applied against any current year or carried forward capital losses (before taking into account the CGT discount), subject to the application of various loss integrity provisions.

If the total capital losses for the income year exceeds total capital gains for the income year, the net capital loss for that income year may be applied to reduce capital gains of later income years (before taking into account the CGT discount, if applicable).

If the total capital gains for the income year exceeds current year and carried forward capital losses, then you may be entitled to CGT discount treatment to reduce the amount of the net capital gain included in your assessable income attributable to the disposal of your Shares. Where CGT discount treatment applies to you, the rate of CGT discount applicable is 50% (if you are an individual or a trust, however, trustees in particular should seek independent professional advice on the operation of the CGT discount rules) or 33⅓% (if you are a complying superannuation entity) of any capital gain on Shares which you held for more than 12 months and which are not disposed of under an agreement entered into within 12 months of acquisition. Only the discounted amount of the capital gain remaining after the application of any current year or carried forward capital losses, if any, would be included in your assessable income for the income year as part of your net capital gain.

Determination of the date of acquisition of any Shares that were withdrawn from the Deferred Employee Share Plan more than 30 days before their time of disposal is discussed in section 7.2 above.

Any capital loss you make on disposal of your Shares would be taken into account in the calculation of your net capital gain or net capital loss for the income year and would not otherwise be taken into account.

The CGT discount will not apply to Shareholders that are companies, and it also does not apply to Shares that have been owned, or are deemed to be owned, for less than the relevant 12-month period.

(b) Non-Australian Resident Shareholders

If you are a non-Australian tax resident, and you do not hold your Shares in carrying on a business at or through a permanent establishment in Australia, you will not be liable for Australian tax on any capital gain realised on the disposal of your Shares.

7.4 GST and stamp duty

No Australian stamp duty or GST is payable by you on the sale of your Shares to Seven pursuant to the Offer. You may be charged GST on incidental costs incurred in acquiring or disposing of your Shares. You may be entitled to input tax credits or reduced input tax credits for such costs, but should seek independent professional advice in relation to your own particular circumstances.

8. ADDITIONAL INFORMATION

8.1 Additional information for Optionholders

Seven has indicated in its Bidder's Statement that the Offer extends to Shares that are issued on the exercise of Options during the period from the Register Date to the end of the Offer Period.

All Options currently on issue have vested and the Remuneration Committee has resolved to exercise its discretion to allow all Options to be exercised so that the holder of the Options may exercise them and accept the Offer in respect of the resulting Shares issued.

8.2 Additional information for Shareholders under the Deferred Employee Share Plan

In accordance with the rules of the Deferred Employee Share Plan, a participant Shareholder may not dispose of any Shares issued under the plan without submitting a notice of withdrawal of shares and such notice having been approved by the Board. The Board may only withhold approval if some of the Shares included in the notice are subject to performance hurdles which have not been satisfied and it has not been determined that the performance hurdles are no longer required to be satisfied.

8.3 Differences between a public company and a proprietary company

Section 6.4(a) of the Bidder's Statement states that following the end of the Offer Period, if Seven has acquired at least 75% of the total number of Shares and the number of Shareholders falls to 50 or less, it intends to requisition a Shareholder meeting and pass a special resolution authorising the conversion of National Hire from a public company to a proprietary company.

If National Hire was to be converted to a proprietary company, then on the basis of its consolidated revenue and consolidated gross assets (as shown in its most recent audited accounts), National Hire would be a "large proprietary company" under the Corporations Act. Some of the key differences between public companies and large proprietary companies which Shareholders should consider are listed below.

Company type	Public	Large proprietary
Takeovers provisions	Apply if the company has more than 50 members.	Unlikely to apply.
Officers	Minimum of 3 directors, 2 of whom are ordinarily resident in Australia. Minimum of 1 secretary who is ordinarily resident in Australia.	Minimum of 1 director who is ordinarily resident in Australia. Can, but need not, have a secretary.
Prospectus	May issue a prospectus for the offer of shares, debentures or other securities.	Cannot engage in any activity that would require the lodgement of a prospectus (except for an offer of shares to existing shareholders or employees).

Company type	Public	Large proprietary
Financial benefits to related parties[10]	A public company can only give a financial benefit to a related party if: ▪ it first obtains the approval of its members in accordance with the procedure set out in Div 3 Chapter 2E of the Corporations Act and gives the benefit within 15 months of that approval; or ▪ the giving of the benefit falls within one of the prescribed exceptions in Div 2 of Chapter 2E of the Corporations Act.	Member approval is not required for a proprietary company to give a financial benefit to a related party unless: ▪ the proprietary company is controlled by a public company; and ▪ the financial benefit is being given to a related party of the controlling public company. As National Hire would be controlled by a public company (SGH), it would require member approval to give a financial benefit to any related party of SGH (such as ACE or Seven).
Auditor	Must appoint an auditor.	Must appoint an auditor, subject to receipt of ASIC audit relief.
ASX	May be listed on ASX.	Cannot be listed on ASX.
Constitution	A copy of any special resolution adopting, modifying or repealing a constitution (plus a copy of any amendments) must be lodged with ASIC within 14 days after it is passed.	Constitution not required to be lodged with ASIC, although must be kept with the company's records.
Stamp duty	No marketable securities duty payable on share transfers if the company is listed.	Marketable securities duty payable on the share transfers at a rate of 0.6% on the higher of the consideration for the transfer and the unencumbered value of the Shares unless and until such time as that duty is abolished (currently scheduled for July 2012).
Registered office	Must have a registered office in Australia which must be open to the public for certain periods during each business day.	Must have a registered office in Australia, although the registered office is not required to be open to the public.

8.4 Transaction costs

National Hire's aggregate costs in connection with responding to the Offer are not expected to exceed $1.7 million.

8.5 ASIC modifications and exemptions

National Hire has not obtained from ASIC any modifications of, or exemptions from, the Corporations Act in relation to this Target's Statement. However, ASIC has published various instruments providing for modifications and exemptions that apply generally to all persons, including National Hire.

10 As that term is defined in Section 228 of the Corporations Act.

8.6 Consents

The following persons have given and have not, before the time of lodgement of this Target's Statement with ASIC, withdrawn their written consent to be named in this Target's Statement in the form and context in which they are named:

- Grant Samuel as financial adviser to National Hire;
- Deloitte, as the Independent Expert;
- Allen & Overy as legal adviser to National Hire;
- Boardroom Pty Limited as the National Hire Registry;
- Elph in respect of its Shareholding and its intentions concerning the Offer; and
- Stirhill in respect of its Shareholding and its intentions concerning the Offer.

This Target's Statement contains statements made by, or statements said to be based on statements made by, Deloitte, the Independent Expert. Deloitte has consented to the inclusion of each statement it has made in the form and context in which the statements appear and has not withdrawn that consent at the date of this Target's Statement.

As permitted by ASIC Class Order 03/635, this Target's Statement may include or be accompanied by certain statements:

- fairly representing a statement by an official person; or
- from a public official document or a published book, journal or comparable publication,

where the statement was not made, or the document was not published, in connection with the Offer or Seven or National Hire or any business, property or person the subject of the Bidder's Statement or the Target's Statement. In addition, as permitted by ASIC Class Order 07/429, this Bidder's Statement contains share price trading data sourced from IRESS without its consent.

8.7 Social security

Acceptance of the Offer may have implications under your superannuation arrangements or on your social security entitlements. If in any doubt, you should seek specialist advice.

8.8 No other material information

The Directors are of the opinion that the information that Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- the information contained in National Hire's releases to the ASX, and in the documents lodged by National Hire with ASIC before the date of this Target's Statement; and
- the information contained in this Target's Statement.

The Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

In deciding what information should be included in this Target's Statement, the Directors have had regard to:

- the nature of the Shares;
- the matters that Shareholders may reasonably be expected to know, including because it is included in the Bidder's Statement (which accompanies this Target's Statement);
- the fact that certain matters may reasonably be expected to be known to Shareholders' professional advisers; and
- the time available to National Hire to prepare this Target's Statement.

9. GLOSSARY

9.1 Definitions

The meanings of the terms used in this Target's Statement are set out below.

ACE means Australian Capital Equity Pty Ltd ACN 009 412 328.

Affiliate means a person is an "affiliate" of another person, if one is directly or indirectly controlled by that other person or if both are directly or indirectly controlled by another person. For the purposes of this definition only, "control" of a person means the right to:

(a) elect or appoint a majority of the directors (or persons or entities performing a similar function) of such person;

(b) the ability to otherwise exercise a majority of the voting rights in respect of that person; or

(c) the ability to otherwise control the management of such person whether by virtue of the terms of its constitutional documents, contractual rights, or otherwise; and "controlled" and "controlling" have a corresponding meaning.

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691 or Australian Securities Exchange, as appropriate.

ASX Listing Rules means the official listing rules of the ASX.

Bidder's Statement means the bidder's statement of Seven dated 4 October 2011.

Board means board of directors of National Hire.

Business Day means a day that is not a Saturday, Sunday, public holiday or bank holiday in Sydney, Australia.

Carlyle means The Carlyle Group.

CHESS means the Clearing House Electronic Sub-registry System operated by ASX.

Closing Date means the date on which the Offer closes.

Coates Group Holdings means Coates Group Holdings Pty Limited ACN 126 069 341 (formerly NED Operations Pty Limited).

Coates Hire means Coates Group Pty Limited ACN 126 739 240 (formerly NED Group Holdings Pty Limited).

Compulsory Acquisition Trigger means the requirement that Seven acquire at least 75% (by number) of the Shares it has offered to acquire under the Offer before the end of the Offer Period.

Connected Directors means each of the Hon. Richard Court, AC, Mr James Walker and Mr Andrew Aitken.

Corporations Act means the *Corporations Act 2001* (Cth).

Deferred Employee Share Plan means the National Hire Deferred Employee Share Plan.

Deloitte means Deloitte Corporate Finance Pty Limited.

Director means a director of National Hire.

Elph means Elph Pty Ltd ACN 070 012 252.

General Offer Price means the amount of $3.00 per Share.

Grant Samuel means Grant Samuel Corporate Finance Pty Limited ACN 076 176 657.

Incremental Offer Price means the amount of $3.60 per Share.

Independent Board Committee means the independent board committee comprising the Independent Directors and established for the purpose of considering the Offer.

Independent Director means each non-associated director, being Mr Stephen Donnelley, Mr Clive Isenberg and Mr Dale Elphinstone.

Independent Expert means Deloitte.

Independent Expert's Report means the report prepared by the Independent Expert dated 18 October 2011 set out in Annexure A to this Target's Statement.

Investment Deed means the investment deed dated on or about 2 October 2007 between (among others) National Hire, Carlyle and Coates Group Holdings (as amended from time to time).

National Hire Registry means Boardroom Pty Limited ACN 003 209 836.

Offer means the offer from Seven to acquire all Shares in which SGH does not already have a relevant interest, which offer is contained in the Bidder's Statement.

Offer Consideration means, the General Offer Price which would be increased to Incremental Offer Price if the Compulsory Acquisition Trigger were to be satisfied.

Offer Period means the period during which the Offer will remain open for acceptance.

Option means an option to acquire a Share.

Option Plan means the National Hire Group Limited 2005 Share Option Plan.

Register means the securities register of National Hire.

Register Date has the meaning given in the Bidder's Statement.

Related Bodies Corporate has the meaning given in the Corporations Act except that the term 'subsidiary' used in the Corporations Act has the meaning ascribed in 'Subsidiary' in this section 9.1.

Seven means Seven (National) Pty Limited ACN 153 299 159.

SGH means Seven Group Holdings Limited ACN 142 003 469.

SGH Share means ordinary share in the issued capital of SGH.

SGH Option means an option to acquire an SGH Share.

Share means an ordinary fully paid share in the capital of National Hire.

Shareholder means each person registered in the Register as a holder of Shares.

Stirhill means Stirhill Pty Limited ACN 003 641 085.

Subsidiary, in relation to an entity, has the meaning given to it in the Corporations Act, but so that:

(a) an entity will also be deemed to be a 'Subsidiary' of an entity if that entity is required by the accounting standards to be consolidated with that entity;

(b) a trust may be a 'Subsidiary', for the purposes of which any units or other beneficial interests will be deemed shares; and

(c) a corporation or trust may be a 'Subsidiary' of a trust if it would have been a Subsidiary if that trust were a corporation.

Supply Agreement means the supply agreement dated on or about 2007 between National Hire, Allight Pty Ltd ACN 053 434 807 and Coates Group Holdings pursuant to which National Hire and Allight Pty Ltd ACN 053 434 807 agree to supply certain goods to Coates Group Holdings.

Sydney time means the local time in Sydney, New South Wales, Australia.

Target's Statement means this document (including the attachments), being the statement of National Hire under Part 6.5 Division 3 of the Corporations Act.

VWAP means the volume weighted average price of shares during the specified period excluding the effect of 'special crossings' and any crossings prior to commencement of normal trading or during the after hours adjust phase.

WesTrac means WesTrac Pty Ltd ACN 009 342 572.

9.2 Interpretation

In this Target's Statement:

(a) other words and phrases have the same meaning (if any) given to them in the Corporations Act;

(b) words of any gender include all genders;

(c) words importing the singular include the plural and vice versa;

(d) an expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;

(e) a reference to a section, clause, attachment and schedule is a reference to a section of, clause of and an attachment and schedule to this Target's Statement as relevant;

(f) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re enactments of any of them;

(g) headings and bold type are for convenience only and do not affect the interpretation of this Target's Statement;

(h) a reference to time is a reference to Sydney time; and

(i) a reference to dollars, $, A$, AUD, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia.

10. AUTHORISATION

This Target's Statement has been approved by a resolution passed by the Directors. All Directors present and entitled to vote, voted in favour of that resolution.

Signed for and on behalf of National Hire:

Chairman of the Independent Board Committee
Stephen Donnelley
National Hire Group Limited

CORPORATE DIRECTORY

National Hire Group Limited
ABN 61 076 688 938
12 Hoskins Road
LANDSDALE WA
T: +61 8 9302 0000
F: +61 8 9302 0001

Legal Adviser
Allen & Overy
Level 7, Gold Fields House
1 Alfred Street
SYDNEY NSW
T: +61 2 9373 7700
F: +61 2 9373 7710

Financial Adviser
Grant Samuel Corporate Finance Pty Limited
Level 19, Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW
T: +61 2 9324 4211
F: +61 2 9324 4301

Share Registry
Boardroom Pty Limited ACN 003 209 836
Level 7, 207 Kent Street
SYDNEY NSW
T: 1300 737 760 from within Australia
T: +61 2 9290 9600
F: +61 2 9279 0664

Independent Expert
Deloitte Corporate Finance Pty Limited
225 George Street
SYDNEY NSW
T: +61 2 9322 7000
F: +61 2 9322 7001

Website Address
www.nationalhire.com.au

National Hire Information Line

For further information, you can call the National Hire Information Line on 1300 560 339 (within Australia) or +612 8011 0354 (outside Australia) which will be open between 8.30 a.m. and 5.30 p.m. (Sydney time) Monday to Friday until the end of the Offer Period.

If you are in any doubt about anything in this Target's Statement, please contact your financial, legal, taxation or other professional adviser.

ANNEXURE A: INDEPENDENT EXPERT'S REPORT

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National Hire Group Limited

Independent expert's report and Financial Services Guide

18 October 2011

Deloitte.

Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us.

What financial services are we licensed to provide?

We are authorised to provide general financial product advice or to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes and government debentures, stocks or bonds.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

We will receive a fee of approximately $225,000 excluding GST in relation to the preparation of this report. This fee is based on time spent at our normal hourly rates and is not contingent upon the success or otherwise of the proposed transaction between Seven (National) Pty Limited and National Hire Group Limited.

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately owned by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu. Over the past two years, Deloitte Touche Tohmatsu and other member firms in Australia have provided other services to the related entities of the National Hire Group including preparation of the March 2010 Independent Expert's Report in relation to the merger of Seven Network Limited and WesTrac Holdings Pty Limited to form Seven Group Holdings Limited for a fee of $1.5 million, and consulting, risk and forensics services to Coates Group for a total value of approximately $90,000.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer	Financial Ombudsman Services
PO Box N250	GPO Box 3
Grosvenor Place	Melbourne VIC 3001
Sydney NSW 1220	info@fos.org.au
complaints@deloitte.com.au	www.fos.org.au
Fax: +61 2 9255 8434	Tel: 1300 780 808
	Fax: +61 3 9613 6399

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

Deloitte Corporate Finance Pty Limited
A.B.N. 19 003 833 127
AFSL 241457

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

Independent Directors
National Hire Group Limited
12 Hoskins Road
LANDSDALE WA 6065

18 October 2011

Dear Directors

Independent expert's report

Introduction

On 20 September 2011 (the **Announcement Date**) Seven Group Holdings Limited (**SGH**) announced that its wholly owned subsidiary, Seven (National) Pty Limited (**Seven National**) had made an unconditional off-market takeover offer for the outstanding shares in National Hire Group Limited (**National Hire Group**) (the **Takeover Offer**). SGH and its related entities have an existing interest in 66.20% of issued shares of National Hire Group. Under the terms of the Takeover Offer Seven National will offer $3.00 per National Hire Group share (the **Offer Price**) and in the event that Seven National acquires at least 75% of the National Hire Group shares that it offers to acquire under the Takeover Offer, the Offer Price will be increased to $3.60 per National Hire Group share (**Incremental Offer Price**). SGH's interest in National Hire Group will need to reach 91.55% in order for the price to be increased to $3.60. As such, in the event that Seven National achieves this, it will be entitled to compulsorily acquire the remaining National Hire Group shares not owned by SGH (and its subsidiaries).

Following the completion of the Takeover Offer, and regardless of whether Seven National acquires at least 75% of the National Hire Group shares that it is offering to acquire, SGH has indicated that it will seek approval to delist National Hire Group from the Australian Securities Exchange (**ASX**).

Further details of the Takeover Offer are included in the Bidder's Statement as issued by Seven National on 20 September 2011 (**Bidders Statement**) and the supplementary bidder's statement issued 4 October 2011 (**Supplementary Bidder's Statement**).

The directors of National Hire Group are required to issue a Target's Statement, in response to the Bidder's Statement, which will include their recommendation as to whether National Hire Group shareholders excluding SGH and its related entities (**Non-Associated Shareholders**) should accept the Takeover Offer.

Purpose of the report

The independent directors of National Hire Group (the **Independent Directors**) have requested that Deloitte Corporate Finance Pty Limited (**Deloitte Corporate Finance**) provide an independent expert's report advising whether, in our opinion, the Takeover Offer is fair and reasonable.

This report is required pursuant to Section 640 of the Corporations Act 2001 (**Section 640**) to assist Non-Associated Shareholders in their decision whether to accept or reject the Takeover Offer. We have prepared this report having regard to Section 640 and the relevant Australian Securities and Investments Commission (**ASIC**) Regulatory Guides.

This report is to be included in a Target's Statement to be sent to National Hire Group shareholders and has been prepared for the exclusive purpose of assisting Non-Associated Shareholders in their consideration of the Takeover Offer. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

Basis of evaluation

In order to assess whether the Takeover Offer is fair and reasonable we have:

- assessed whether the Takeover Offer is fair by estimating the fair market value of an ordinary National Hire Group share on a control basis and comparing that value to the consideration to be received by Non-Associated Shareholders pursuant to the Takeover Offer. As the consideration provided to Non-Associated Shareholders is dependent on the outcome of acceptances received in respect of the Takeover Offer we have assessed the fairness of both the Offer Price and the Incremental Offer Price
- assessed the reasonableness of the Takeover Offer by considering other advantages and disadvantages of the Takeover Offer to Non-Associated Shareholders.

Summary and conclusion

In our opinion:

- the Offer Price is not fair but reasonable
- the Incremental Offer Price is not fair but reasonable.

In arriving at this opinion, we have had regard to the following factors:

The Takeover Offer (after considering the Offer Price and the Incremental Offer Price) is not fair

Set out in the table below is a comparison of our assessment of the fair market value of a National Hire Group share with the consideration offered by Seven National.

Table 1: Evaluation of fairness

	Low (AUD)	High (AUD)
Estimated fair market value of a National Hire Group share on a control basis (Section 6.2.5)	3.66	4.30
Consideration:		
the Offer Price	3.00	3.00
the Incremental Offer Price	3.60	3.60
Premium / (discount) of Consideration to fair market value of a National Hire Group share on a control basis:		
the Offer Price	(18)%	(30)%
the Incremental Offer Price	(2)%	(16)%

Source: Deloitte Corporate Finance analysis

Note:

1. All amounts stated in this report are in Australian dollars (AUD) unless otherwise stated and may be subject to rounding

The Offer Price and the Incremental Offer Price offered by Seven National are below the range of our estimate of the fair market value of a National Hire Group share on a control basis. Accordingly it is our opinion that the Takeover Offer, considering both the Offer Price and the Incremental Offer Price, is not fair.

Valuation of a National Hire Group share

We have estimated the fair market value of a share in National Hire Group on a control basis using the capitalisation of maintainable earnings method, which estimates the value of National Hire Group by capitalising its maintainable earnings with an appropriate earnings multiple.

In estimating the fair market value of a National Hire Group share (on a control basis) our ability to disclose certain information with regards to Coates Group Pty Limited (**Coates Group**) has been limited due to confidentiality requirements set out in the Coates Group investor deed. Our analysis has been presented on a National Hire Group attributable basis taking account of attributable earnings, surplus assets and net debt. Since our analysis suggests that National Hire and Coates Group have broadly comparable industry drivers and growth prospects our earnings multiple analysis has been assessed on a combined basis.

We have estimated the fair market value of a National Hire Group share to be in the range of $3.66 and $4.30 on a control basis as summarised in the following table.

Table 2: Summary – capitalisation of maintainable earnings method

	Section		Low value	High value
Attributable maintainable EBIT	6.2.1	($'mil)	160.0	160.0
EBIT multiple	6.2.2	Times	8.25	8.75
Enterprise value		**($'mil)**	**1,320.0**	**1,400.0**
Attributable surplus assets	6.2.3	($'mil)	1.8	1.8
Attributable net debt	6.2.4	($'mil)	(866.2)	(866.2)
Equity value (on a minority basis)		**($'mil)**	**455.6**	**535.5**
Premium for control	6.2.5	%	20%	20%
Equity value (on a control basis)		($'mil)	**546.7**	**642.6**
National Hire Group shares outstanding (fully diluted)		(m)	149.5	149.5
Equity value per share (control basis)		**($)**	**3.66**	**4.30**

Source: Deloitte Corporate Finance analysis

The above values are highly sensitive to the maintainable earnings and multiple selected. A sensitivity analysis of the equity value (on a control basis) applying higher and lower levels of maintainable earnings and earnings multiples is summarised in table 4. Our assessed value of a National Hire Group share is very sensitive to these valuation inputs, largely as a consequence of the relatively high debt gearing within Coates Group.

Capitalisation of maintainable earnings method

We have selected earnings before interest and tax (**EBIT**) as an appropriate measure of earnings for National Hire Group because earnings multiples based on EBIT are less sensitive to different financing structures and effective tax rates than multiples based on net profit after tax (**NPAT**) and partially take account of different capital expenditure requirements, which are ignored by multiples of earnings before interest tax depreciation and amortisation (**EBITDA**).

The table below presents the historical earnings, earnings guidance provided by National Hire Group in respect of the half year to December 2011 (annualised) and our selection of future maintainable earnings for National Hire Group's wholly owned operations and brands, principally Allight and Sykes (**National Hire**) and its attributable interest in the earnings of Coates Group.

Table 3: National Hire Group maintainable EBIT

	Jun-09 Actual ($ million)	Jun-10 Actual ($ million)	Jun-11 Actual ($ million)	Implied annualised Dec-11 Guidance ($ million)	Selected maintainable earnings ($ million)
National Hire adjusted EBIT	6.1	2.1	12.6	n/a	
Coates Group adjusted EBIT	258.2	173.9	236.5	n/a	
Coates Group adjusted EBIT attributable to National Hire Group	119.0	80.2	109.0	n/a	
National Hire Group attributable adjusted EBIT	**125.1**	**82.3**	**121.6**	**150.0**[1]	**160.0**
Implied EBIT growth		*(34)%*	*48%*	*23%*[2]	*32%*[2]

Source: National Hire Group, Deloitte Corporate Finance analysis

Notes:

1. The implied attributable EBIT is an indicative estimate based on the high end of National Hire Group's 31 December 2011 half year profit guidance of $18 million to $24 million. This assumes a simple annualisation of profits, a 30% tax rate and an interest expense based on the FY11 interest expense adjusted for an increase in the estimated net debt of National Hire and Coates Group. This implied full year EBIT does not represent a formal profit guidance or budget and does not take into account any company specific factors such as seasonality of earnings which may cause the simplistic doubling of the half year guidance to be inaccurate.
2. Implied EBIT growth over FY11 National Hire Group attributable adjusted EBIT.

The earnings multiples used of 8.25 to 8.75 on a minority basis for National Hire Group (which implies a multiple of 8.8 to 9.4 times on a control basis) are based on an analysis of listed companies and previous merger and acquisitions in the equipment hire and mining services and industries.

The sensitivity of the fair market value of a National Hire Group share to the assumptions surrounding maintainable earnings and earnings multiples are set out in the table below.

Table 4: Sensitivity analysis

EBIT multiple (minority basis)	Maintainable earnings ($ million) 150	155	160	165	170
8.00 x	2.69	3.01	3.34	3.66	3.98
8.25 x	2.99	3.33	3.66	3.99	4.32
8.50 x	3.30	3.64	3.98	4.32	4.66
8.75 x	3.60	3.95	4.30	4.65	5.00
9.00 x	3.90	4.26	4.62	4.98	5.34

Source: Deloitte Corporate Finance analysis

Recent trading in National Hire shares

Our assessed fair market value of a National Hire shares represents a substantial premium to the share trading price in the six month period to the Announcement Date during which National Hire Group shares traded in the range of $1.40 to $1.88. Factors affecting the difference between the trading price and our estimated fair market value include:

- our assessed value is on a control basis and the share trading price of National Hire Group represents a portfolio holding or minority interest
- we have access to the most current financial information for National Hire Group including FY12 budgets and most recent trading results which indicate strong recent growth. This information is not in the public domain and therefore would not be reflected in National Hire Group's share trading
- the lack of liquidity of the shares. For the 12 months prior to the Takeover Offer, there were 2 million shares traded representing approximately 1.3% of total National Hire Group shares outstanding. Also during the last 12 months, there were 99 days where no shares changed hands indicating that trading in National Hire Group shares was very illiquid
- in part due to the lack of liquidity as well as the composition of the shareholder register in that two shareholders own 88.1% of the shares, there is no sell side research coverage of National Hire Group and there is very limited presence of institutional investors on the share register
- the uncertainty in respect of the timing and mechanism for either National Hire Group or its other majority shareholder to exit their investment in Coates Group which may result in some investors attributing a discount to this investment.

The share price of National Hire Group increased significantly subsequent to the announcement of the Takeover Offer indicating that the share price is responsive to company specific news. We consider this to be an indicator that the market was responding to a known event (the Takeover Offer) rather than a re-evaluation of the future prospects of the business and we further note that the volume of shares traded has been limited. Having regard to this, we do not consider the share price to be reflective of the fair market value of National Hire Group.

Valuation of consideration

National Hire shareholders will receive consideration of $3.00 in the event that conditions required to meet the Incremental Offer Price are not achieved. In the event that these conditions are met the consideration will increase to $3.60.

Elph Pty Limited (**Elph**), the investment vehicle for Dale Elphinstone, who is a director of National Hire Group, holds 21.9% of the shares in National Hire Group and therefore his voting intentions will be a key determinant in whether or not the compulsory acquisition threshold is met.

We understand that Elph intends to reject (or procure the rejection of) the Takeover Offer in respect of the 21.9% interest in National Hire Group held by Elph where Elph is only assured of receiving $3.00 per share. Elph has not made any decision whether it would accept the Incremental Offer Price, or accept the Takeover Offer in circumstances where its acceptance would satisfy the threshold for the Incremental Offer Price. In the event that Elph rejects (or procures the rejection of) the Takeover Offer, Seven National will not get to the compulsory acquisition threshold (90%) and Non-Associated Shareholders will not receive the Incremental Offer Price.

The Takeover Offer (inclusive of the Offer Price and the Incremental Offer Price) is reasonable

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. An offer might also be reasonable if, despite being 'not fair', the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

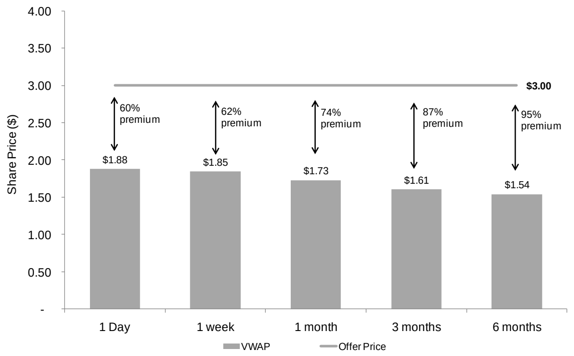
We have formed our opinion on the reasonableness of the Takeover Offer based on an analysis of the likely advantages and disadvantages to shareholders of accepting the Takeover Offer.

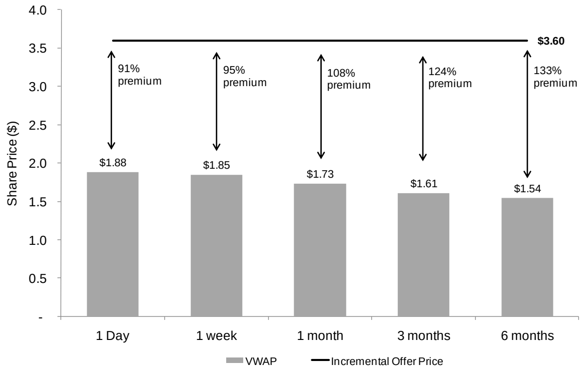
Advantages of the Takeover Offer

The consideration represents a significant premium to recent share trading

The consideration under both the Offer Price and the Incremental Offer Price represents a significant premium to National Hire Group's share trading prior to the Announcement Date as set out below:

Figure 1: Offer Price and Incremental Offer Price compared to recent share trading





Source: Deloitte Corporate Finance analysis, Thomson Reuters

It is likely that National Hire Group shares will trade below the Offer Price in the event Seven National does not acquire all National Hire Group shares subject to the Takeover Offer within the offer period.

Whilst it is difficult to predict the price at which the shares will trade in the event that the Takeover Offer is not successful, particularly in light of the recent volatility in capital markets, it is very possible that the shares will trade closer to the prices observed prior to the Announcement Date which would represent a significant discount to the Offer Price as set out in the figures above.

National Hire Group shares could become even more illiquid

In the event that the Takeover Offer is unsuccessful, SGH has stated that it will take steps to delist National Hire Group from the ASX. On 17 October 2011, the board of National Hire Group resolved to add a delisting resolution to the resolutions to be considered by shareholders at the annual general meeting of National Hire Group to be held on 24 November 2011.

Given that SGH controls the board of National Hire Group by virtue of its majority holding, it is possible that SGH would be able to procure the submission to the ASX of a delisting application.

In this event, shareholders will be faced with an increased level of trading illiquidity compared to their current situation since they will own an investment in an unlisted company.

Whilst shareholders with a long-term investment horizon may be able to realise a value in excess of the Offer Price or the Incremental Offer Price through future dividends or capital gains (if realised) over the longer term, the timing of any such dividends or realised gains are highly uncertain as Seven National has indicated in the Bidder's Statement that its intention is that no dividends will be declared or paid by National Hire Group in the foreseeable future.

Alternate offer is unlikely

At the date of this report there were no alternative takeover offers made for the shares in National Hire Group. Whilst it could be possible for an alternate bidder to emerge, we consider this to be unlikely without the support of SGH considering SGH's 66.2% interest in National Hire Group and that any superior proposal for National Hire Group as a whole would require the support of SGH as substantial shareholder.

On this basis it is unlikely that a superior proposal will emerge. Whilst there is a possibility that Seven National could emerge with a higher offer given its desire to obtain 100% of National Hire and the potential synergies available to SGH through its WesTrac Pty Limited (**WesTrac**) business, there is no certainty that this will occur.

Accordingly, in the absence of the Takeover offer there is likely to be limited alternative opportunities through which Non-Associated Shareholders will be able to realise a value in excess of the Offer Price in the near term.

Removes exposure to Coates' refinancing risk

Coates Group's existing debt facilities are subject to refinancing within the next three years. Since these facilities were negotiated in a more favourable debt environment, it is likely that the interest margins on these facilities will increase when refinanced. Furthermore, given the relatively high existing leverage within Coates Group (approximately 60% balance sheet gearing) there is a risk that existing debt levels may not be able to be rolled over when refinancing occurs requiring additional equity injections from existing shareholders or other investors which may dilute future equity returns.

The Takeover Offer therefore removes this risk as Non-Associated Shareholders will no longer be exposed to the refinancing risks associated with Coates Group.

SGH may seek to alter or influence National Hire's board and future dividend policy

Seven National has stated in the Bidder's Statement that, subject to the Corporations Act and the constitution of National Hire Group, it intends to seek to replace some of the members of the National Hire Group board who are not connected with SGH with nominees of SGH, so that SGH has proportionate representation on the board. Furthermore, Seven National has indicated that it will review the level of dividends payable by National Hire Group and ensure that any dividends are appropriate having regard to the capital funding requirements of National Hire Group. It is expected that Seven National would propose that no dividends be declared or paid by National Hire Group in the foreseeable future. This could be particularly disadvantageous to investors who seek an income yield from their investment in National Hire Group in the future, however, we note that no dividends have been paid since October 2008.

Allows for an exit in a largely illiquid instrument with limited distribution prospects in the short term

Non-Associated Shareholders who accept the Takeover Offer will no longer be exposed to the liquidity risk associated with realising an investment on market. The trading liquidity of National Hire Group shares has been very low with approximately 2 million shares or 1.3% of National Hire Group's total issued shares trading in the 12 months to the Announcement Date including 99 days where no shares were traded.

Disadvantages of the Takeover Offer

Inability to participate in any upside growth potential of National Hire Group otherwise not factored into the consideration

Non-Associated Shareholders will lose the ability to participate in upside growth potential that may be attributable to National Hire and Coates Group businesses to the extent that this growth is not reflected in to the consideration for the Takeover Offer. National Hire (through AllightSykes and the investment in Coates Group) is favourably exposed to growth sectors of the Australian and global economy, particularly the likely growth from industrial equipment hire and sales which are required to underpin announced and expected mining and infrastructure projects which should result in expansion of the operations of AllightSykes and the rental fleet for Coates Group. Non-Associated Shareholders will therefore no longer retain exposure to the Australian equipment sales and hire sectors flowing from the expected growth in the Australian resource and infrastructure sectors.

Additional growth in the value of National Hire Shares may also be realised in the future from:

- due to the high leverage within National Hire Group (particularly through the investment in Coates Group) any further growth in operating earnings would translate into a magnified impact on the equity value of National Hire Group
- whilst AllightSykes only represents 10% of attributable EBIT for National Hire Group, there is potential growth from the AllightSykes business as it achieves scale and expands its operations overseas which is not reflected in the near term earnings for the business

- more visibility in respect of the future ownership structure of Coates Group. If Carlyle Group were to exit its investment in Coates Group, this would likely create better visibility for investors and the market of the underlying value of the Coates Group and could potentially result in a return of funds to National Hire Group.

The Offer Price represents a substantial discount to the intrinsic value of a National Hire Group share

As set out in Table 1 in our assessment of fairness above, the Offer Price implies a discount of 18% to 30% to our assessed fair market value of a National Hire Group share. In addition to the potential future upside growth in the value of a National Hire Group share over time which shareholders who accept the Takeover Offer are forgoing, the Offer Price also represents a substantial discount to the current intrinsic value of a National Hire Group share. However, the likelihood and timing of realisation of the underlying intrinsic value (including any future dividends) is highly uncertain.

Tax implications

The tax implications of accepting the Takeover Offer will vary depending on the individual circumstances of each of the Non-Associated Shareholders.

Accepting the Takeover Offer may crystallise a tax liability for Non-Associated Shareholders. This may be seen as a particular disadvantage for those Non-Associated Shareholders with the current intention of retaining their shares in National Hire for the long-term as acceptance of the Takeover Offer will likely crystallise a tax liability earlier than anticipated.

Non-Associated Shareholders should seek advice and evaluate the taxation consequences of the Takeover Offer based on their individual circumstances.

Other matters

There is a degree of interrelationship between SGH group companies and that of National Hire Group including the provision of equipment from WesTrac to Coates Group and Coates Group operating certain rental facilities on WesTrac's behalf (the Cat Rental Stores). This may represent special value to SGH that no other purchasers may be able to realise should National Hire Group be acquired by another party.

Conclusion on reasonableness - Offer Price

Whilst the Offer Price is below our estimated full control valuation range of a National Hire Group Share, we consider that, on balance, the advantages of the Takeover Offer outweigh the disadvantages and that the Takeover Offer is therefore reasonable since:

- the Offer Price represents a 95% premium to the six month volume weighted average share price of National Hire shares prior to the Announcement Date. If the transaction does not proceed, it is very possible that the share price of National Hire Group will fall below the Offer Price and likely closer to the prices observed prior to the announcement of the Takeover Offer. Even if the Takeover Offer is not successful, it is likely that SGH will attempt to delist National Hire Group in the near term which, if successful, would act as a further impediment to Non-associated Shareholders realising value in excess of the Offer Price
- based on the current shareholding structure of National Hire, with SGH owning a 66.2% stake, it would appear that the likelihood of Non-Associated Shareholders receiving an alternate offer from an alternate bidder is low
- whilst it is possible that the Non-Associated Shareholders may realise a higher value than the Offer Price, either through future distributions and/or appreciation of the National Hire Group share price, it is unlikely that this would occur in the near term particularly in light of Seven National's stated intention that no dividends will be declared or paid by National Hire Group in the foreseeable future.

Conclusion on reasonableness – Incremental Offer Price

As discussed above, we understand that Elph intends to reject (or procure the rejection of) the Takeover Offer in respect of the 21.9% interest in National Hire Group held by Elph where Elph is only assured of receiving $3.00 per share. Elph has not made any decision whether it would accept the Incremental Offer Price, or accept the Takeover Offer in circumstances where its acceptance would satisfy the threshold for the Incremental Offer Price.

Depending on Elph's course of action in respect of the Takeover Offer and the level of acceptances received in favour of the Takeover Offer from other Non-Associated Shareholder's excluding Elph, there is a potential for Seven National to attain the compulsory acquisition threshold and for Non-Associated Shareholders to receive the Incremental Offer Price.

Whilst the Incremental Offer Price represents a smaller discount to our estimated full control valuation range of a National Hire Group Share, we have still concluded that the Incremental Offer Price is not fair. However, the advantages and disadvantages in relation to the Takeover Offer set out above in relation to the Offer Price also apply to the Incremental Offer Price and therefore we have concluded that the Incremental Offer Price is reasonable.

Opinion

In our opinion:

- the Takeover Offer assuming the Offer Price is not fair but reasonable
- the Takeover Offer assuming the Incremental Offer Price is not fair but reasonable.

An individual shareholder's decision in relation to the Takeover Offer may be influenced by his or her particular circumstances. If in doubt the shareholder should consult an independent adviser, who should have regard to their individual circumstances.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED

Mark Pittorino
Director

Tapan Parekh
Director

Note: All amounts stated in this report are AUD unless otherwise stated, and may be subject to rounding.

Contents

Appendices

1 Terms of the Takeover Offer

1.1 Summary

On 20 September 2011, Seven Group Holdings Limited (**SGH**) announced that its wholly owned subsidiary, Seven (National) Pty Limited (**Seven National**) had made an off-market takeover offer for the shares in National Hire Group Limited (**National Hire Group**) in which it does not have a relevant interest (the **Takeover Offer**). SGH and its related entities have an existing interest in 66.20% of issued shares of National Hire Group. Under the terms of the Takeover Offer, Seven National will offer $3.00 per National Hire Group share (the **Offer Price**) and in the event that Seven National acquires at least 75% of the National Hire Group shares that it offers to acquire under the Takeover Offer the Offer Price will be increased to $3.60 per National Hire Group share (**Incremental Offer Price**). SGH's interest in National Hire Group will need to reach 91.55% in order for the price to be increased to $3.60. In this event it will be entitled to compulsorily acquire the remaining National Hire Group shares not owned by SGH (and its subsidiaries).

1.2 Seven National's intentions

Seven National, a wholly owned subsidiary of SGH, is making the Takeover Offer with the concurrence of SGH and the intentions of Seven National are therefore the same as the intentions of SGH in relation to National Hire Group. Under the Takeover Offer, if Seven National acquires at least 75% (by number) of the National Hire Group shares it offers to acquire (i.e. SGH acquires a relevant interest in 91.55% in National Hire Group), Seven National's intentions as disclosed in the replacement Bidder's Statement dated 4 October 2011 (**Bidder's Statement**) are as follows:

- compulsorily acquire the remaining shares in accordance with Part 6A.1 of the Corporations Act (including any new shares issued pursuant to the exercise of options)
- arrange for National Hire Group to be removed from the official list of the ASX
- replace certain members of the National Hire Group board with the nominees of Seven National.

Under the Takeover Offer, if Seven National acquires less than the number of shares necessary to proceed with compulsory acquisition of the remaining shares under Part 6A.1 of the Corporations Act, then Seven National's intentions are as follows:

- if Seven National acquires a relevant interest in at least 75% of National Hire Group shares and the number of National Hire Group shareholders (other than employee shareholders) falls to 50 or less, to call a shareholder's meeting and pass a special resolution to change the status of National Hire Group from a public company to a proprietary company in accordance with section 162 of the Corporations Act. This will result in delisting of National Hire Group from the ASX
- if Seven National acquires less than 75% of National Hire Group shares, to take steps to delist National Hire Group from the ASX. On 17 October 2011, the board of National Hire Group resolved to add a delisting resolution to the resolutions to be considered by shareholders at the annual general meeting of National Hire Group to be held on 24 November 2011. Removal of National Hire Group from the official list of ASX will ultimately be at the discretion of the ASX
- to seek to replace some of the board members of National Hire Group who are not connected with SGH with nominees of SGH, so that the proportion of such nominees is broadly similar to the voting power of SGH in National Hire Group
- to propose that no dividends will be declared or paid by National Hire Group in the foreseeable future, subject to the contingencies of future years.

Other general intentions of Seven National in relation to the Takeover offer include:

- no material change to the operations of National Hire Group and the business will be conducted in the same manner as at the Announcement Date
- there will be no redeployment of the fixed assets
- the present employees of National Hire Group will continue to be employed.

1.3 Key conditions of the Takeover Offer

SGH has indicated in the Bidder's Statement that the Takeover Offer is unconditional.

The Takeover Offer may be withdrawn with the consent in writing of ASIC, subject to any conditions imposed by ASIC. Seven National may also vary the Takeover Offer in accordance with the Corporations Act.

Details of the clauses in relation to the withdrawal and variation of the Takeover Offer are set out in Sections 9.7 and 9.8, respectively, of the Bidder's Statement.

2 Scope of the report

2.1 Purpose of the report

Under section 640 of the Corporations Act (**Section 640**) a Target's Statement given in response to a takeover offer must include, or be accompanied by, an independent expert's report if either the bidder's voting power (direct or indirect) in the target is 30% or more, or the bidder and target have one or more common directors. The independent expert's report is required for the purpose of providing shareholders of the target company with an objective and disinterested view as to whether the offer is fair and reasonable and to provide them with sufficient information to make an effective, informed decision as to whether to accept or reject the offer.

Seven National is an indirect wholly-owned subsidiary of SGH formed for the purpose of making the Takeover Offer. SGH currently holds 66.2% of the voting power in National Hire Group and also has one director in common with National Hire Group. An independent expert's report is therefore required under Section 640 to provide an opinion to Non-Associated Shareholders as to whether the Takeover Offer is fair and reasonable to Non-Associated Shareholders.

This report is to be included in a Target's Statement to be sent to shareholders and has been prepared for the exclusive purpose of assisting shareholders in their consideration of the Takeover Offer. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

2.2 Basis of evaluation

2.2.1 Guidance

In our assessment as to whether the Takeover Offer is fair and reasonable to Non-Associated Shareholders, we have had regard to common market practice and Regulatory Guide 111 issued by the Australian Securities and Investments Commission (ASIC) in relation to the content of independent expert's reports. The Regulatory Guide prescribes standards of best practice in the preparation of independent expert's reports pursuant to Section 640.

ASIC Regulatory Guide 111

This regulatory guide provides guidance in relation to the content of independent expert's reports prepared for transactions under Chapters 5, 6 and 6A of the Corporations Act, in relation to:

- takeover bids
- schemes of arrangement
- compulsory acquisitions or buy-outs
- acquisitions approved by security holders under item 7 of section 611 of the Corporations Act (**Section 611**)
- selective capital reductions
- related party transactions
- transactions with persons in a position of influence
- demergers and demutualisation of financial institutions
- buy-backs.

ASIC Regulatory Guide 111 refers to a 'control transaction' as being the acquisition (or increase) of a controlling stake in a company that could be achieved, for example, by way of a takeover offer, scheme of arrangement, approval of an issue of shares using item 7 of Section 611, a selective capital reduction or selective buy back under Chapter 2J.

In respect of control transactions, under ASIC Regulatory Guide 111 an offer is:

- fair, when the value of the consideration is equal to or greater than the value of the shares subject to the takeover offer. The comparison must be made assuming 100% ownership of the target company (i.e. including a control premium if appropriate)
- reasonable, if it is fair, or, if despite not being fair, after considering other significant factors, the expert believes there are sufficient reasons for shareholders to accept the takeover offer, in the absence of any higher bids before the close of the offer.

2.2.2 Fairness

ASIC Regulatory Guide 111 defines an offer as being fair if the value of the offer price is equal to or greater than the value of the shares the subject of the offer. The comparison must be made assuming 100% ownership of the target entity.

Accordingly we have assessed whether the Takeover Offer is fair by comparing the Takeover Offer with the value of a National Hire Group share on a control basis.

The National Hire Group shares have been valued at fair market value, which we have defined as the amount at which the shares would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither of whom is under any compulsion to buy or sell. Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation of a National Hire Group share has not been premised on the existence of a special purchaser.

2.2.3 Reasonableness

ASIC Regulatory Guide 111 considers an offer in respect of a control transaction, to be reasonable if either:

- the offer is fair
- despite not being fair, but considering other significant factors, the expert believes there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

To assess the reasonableness of the Takeover Offer we considered the following significant factors in addition to determining whether the Takeover Offer is fair:

- the existing shareholding of SGH in National Hire Group
- any other significant shareholdings in National Hire Group
- the likely market price and liquidity of National Hire Group shares in the absence of the Takeover Offer
- any synergies or special value of National Hire Group to Seven National or its related parties
- the likelihood of an alternative offer for the National Hire Group shares
- other implications associated with shareholders rejecting the Takeover Offer.

2.3 Limitations and reliance on information

The opinion of Deloitte Corporate Finance is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in Appendix 6.

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited (**APESB**).

Our procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board (**AUASB**) or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

2.3.1 Individual circumstances

We have evaluated the Takeover Offer for shareholders as a whole and have not considered the effect of the Takeover Offer on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Takeover Offer from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Takeover Offer is fair and reasonable to Non-Associated Shareholders. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

3 Industry analysis

3.1 Overview

The Coates Group is Australia’s largest general equipment hire company providing a broad range of general hire products across a number of sectors. The majority of the Coates Group’s revenue is generated in Australia and is predominantly derived from the mining and construction industries. National Hire Group, through its wholly-owned subsidiary Allight and the recently acquired Sykes Group, provides equipment sales predominantly to the construction and mining industries across Australia.

The equipment sales and hire industries are closely affiliated as equipment hire companies are customers for equipment sales companies. As both the Coates Group and AllightSykes predominantly service the construction and mining industries, there is potential for overlap in customer and industry drivers.

3.2 Australian equipment sales market

3.2.1 Structure of industry

The equipment sales industry in Australia is very diverse in the types and nature of equipment supplied.

National Hire’s exposure to the equipment sales market is through AllightSykes. The types of equipment sold by AllightSykes include mobile lighting towers, water pumps, power generators, diesel engines, air compressors as well as the product support for the equipment.

Competition comes from both Australian manufacturers and multinational companies with Australian operations. Equipment hire companies may also be considered to be competitors to a limited degree as they provide organisations a less capital intensive rental option.

3.2.2 Critical success factors

The critical success factors in the Australian equipment sales industry are as follows:

- **supplier relationships** – reputable and reliable suppliers are valuable (particularly original equipment manufacturers) that ensure high component quality and product support
- **distribution network** – containing knowledgeable staff who are strategically located to service key customers. The time lag between order and equipment delivery is often a key determinant of the buying decision, particularly for large mining and infrastructure projects where project delays may result in lost revenues and/or penalties
- **equipment management and support** – providing technical support to customers with the capacity to efficiently manage maintenance and repairs of equipment for customers across multiple products and locations
- **inventory management systems** – systems should be efficient and minimise stock holding times but enable rapid delivery to customers
- **innovative and complimentary product range** – a product range should be innovative in order to provide effective solutions that satisfy customer requirements. A complimentary product range provides for economies of scale and opportunities to provide parts and expertise
- **reliable and safe equipment** – minimisation of down time is essential otherwise reputational damage may occur and customers may purchase from competition.
- **ability to support product** through geographical presence and expertise.

3.3 Australian equipment hire industry

3.3.1 Structure of industry

The general hire equipment market generated $5.4 billion in revenue in FY11, with the construction and mining segment accounting for the majority (approximately 70%), followed by trade businesses (25%) and households (5%)[1].

Barriers to entry in the general equipment hire industry are very low. IBISWorld Pty Limited (**IBISWorld**) notes that the industry has a low degree of concentration with the top four players accounting for an estimated 34.3% of industry revenue. The balance of the industry is made up of numerous small participants and remains relatively fragmented with the majority of participants employing fewer than 20 people and typically catering to the lower end of the market. Coates Group is the largest market participant with approximately 20% of industry revenues.

The industry is capital intensive for market participants as large capital outlays are typically required for the acquisition of plant and equipment to be made available for hire. General maintenance costs associated with the plant are typically borne by the market participant with hire pricing structured to recoup this from individual hirers over the life of the plant item.

The hire of general equipment includes items such as access equipment, air compressors, bulldozers, cranes, earth-moving equipment, forklifts, lighting towers, power generators, portable toilets, pumps, scaffolding, storage containers, traffic management equipment and welders. The industry provides end users the ability to participate in the pooling of transferrable assets and the potential for greater utilisation and efficiency.

The three major product categories in this industry are earth-moving equipment, cranes and scaffolding, representing approximately 56% of industry revenues.

3.3.2 Critical success factors

The main reasons individual hirers elect to hire rather than purchase equipment include reduction in capital outlays, reduction in equipment obsolescence risk, reduction in maintenance costs and eliminating the nuisance factor of procuring, maintaining and replacing large volumes of capital items. Accordingly, the key success factors for participants in the equipment hire industry include:

- **a distribution network** – the ability to deliver equipment at short notice to required locations. A key input into the customers' decision can be assisted by a distribution network and its close proximity to clients
- **ability to rapidly expand or curtail rental fleet and the timing of capital expenditure in line with market demand** – this was particularly evident during the global financial crisis where demand slowed considerably and some participants experienced financial difficulty
- **having strong relationships within key markets** – maintaining strategic alliances and relationships with many stakeholders such as commercial clients, government departments, project management companies and other professional construction services providers is critical to the ongoing success of firms in the construction services segment
- **access to up to date equipment –** the latest equipment demands by clients need to be catered for and stock on hand needs to be well maintained, ready for deployment and supplier delivery times managed
- **access to current technology** – utilising computer tracking and monitoring of equipment on hire can improve efficiency and ensure adherence to maintenance programs, identifying obsolete equipment and ensure efficiently invoicing clients.

[1] IBISWorld – Plant Hiring or Leasing in Australia – August 2011

3.4 Industry drivers

Demand for equipment sales and hire for Coates Hire and AllightSykes is predominantly determined by the level of activity in the following sectors:

- **mining:** including heavy industry engineering
- **non-residential building:** including engineering construction

Both the mining and non-residential building construction segments have a strongly cyclical nature.

IBISWorld expects that equipment hire industry revenue will increase at an average annual rate of 4.3% over the five years to FY17 as capital expenditure is expected to rise as the world economy rebounds.

Key trends expected to impact the general equipment hire sector include:

- a recovery in spending in the mining and resource industry following recovery in general commodity prices, expansion of infrastructure capacity and the resultant increase in the volume of commodities mined. Engineering construction in mining and heavy industry is expected to be a key growth area, particularly in the oil and gas sector (coal seam gas serves as the feedstock for an export liquefied natural gas (**LNG**) market with the Gladstone and North West Shelf LNG projects underpinning growth)
- increasing levels of outsourcing by the private and public sectors of plant and equipment and the maintenance of major capital equipment
- increased capital expenditure on non-residential construction and road and rail infrastructure as part of the Australian government's Nation Building Economic Stimulus Plan[2]
- a recovery in construction activity in the Australian domestic housing market. It is expected that interest rates will remain steady in the short to medium term as the Reserve Bank of Australia (**RBA**) continues to implement 'mildly restrictive' monetary policy[3]. Australia's population is expected to continue to grow at moderate levels at around 1.8% to 2.0% per annum. The combination of these factors is expected to lead to compound average growth in residential construction of 6.2% per annum over the next five years[4].

3.5 Australian mining and other engineering construction

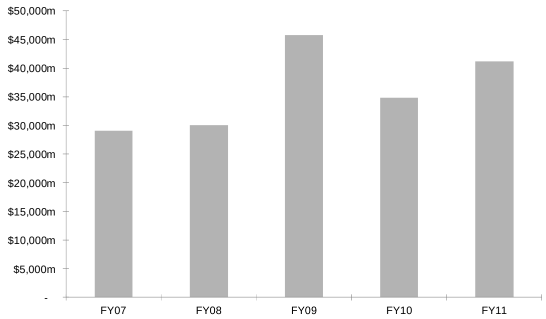
Strong growth in mining activity prevailed in the years leading up to FY07 as a result of high commodity prices and strong global demand for commodities, from China in particular. New investment was curtailed in FY08 as a result of declining commodity prices and general economic uncertainty during the global financial crisis. Despite the global economic uncertainty volumes of commodities mined (a key driver of the equipment hire industry), particularly coal and iron ore, remained strong. New capital expenditure and construction activity in the mining sector recovered in FY09 faster than anticipated due to a recovery in commodity prices and continuing export demand from China and other South and East Asian countries.

Whilst the announcement of the framework for the mineral resource rent tax (**MRRT**) and the carbon tax announced during FY11 have created some uncertainty for investment into the sector, there remains a substantial pipeline of approved investments which should underpin growth in the sector for at least the medium term.

[2] Expenditure of $42 billion to occur progressively between FY09 and FY12 with a peak of approximately $16 in FY10
[3] RBA Economic outlook – May 2011
[4] Construction Forecasting Council

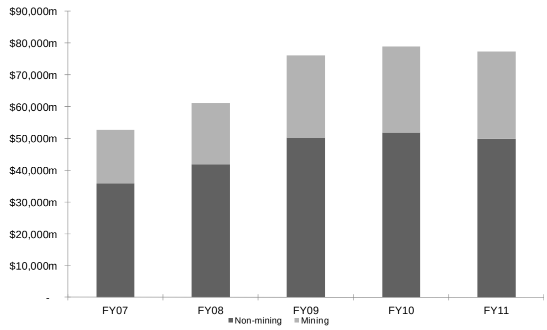
Engineering construction outside of the mining sector (including roads, bridges, railways, electricity transmission and distribution, pipelines, water, sewerage and telecommunications infrastructure) experienced slightly more growth than mining capital expenditure over the five years to FY11 as set out in the figures below.

Figure 2: Historical expenditure on new mining capital



Source: ABS

Figure 3: Historical expenditure on engineering construction



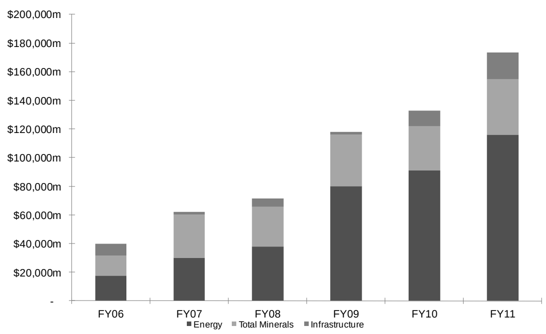
Source: Construction Forecasting Council

Export volumes from the mining sector are expected to continue to grow, largely driven by economic growth from East and South Asia, and China in particular. Energy developments are forecast to contribute significantly to mining construction investment. In the short to medium term large infrastructure investments are planned to support increased production and distribution of minerals, particularly iron ore and coal in WA, NSW and Queensland and large LNG projects in WA and Queensland.

Mining

There were 94 projects (minerals, energy and infrastructure projects) at an advanced stage of development (i.e. either committed or under construction) with a record capital expenditure of $173.6 billion at the end of April 2011. The value of advanced mining projects increased significantly in FY09 and FY10 with the majority of these projects (approximately 70%) in the energy sector, particularly LNG. Australia also recorded its third highest mineral exploration expenditure in FY11.[5] The increase in the value of advanced mining projects is a leading indicator of industry demand for equipment sales and hire over the medium term as set out below.

Figure 4: Value of advanced mining projects



Source: ABARE

[5] ABARE Minerals and Energy Major Development Projects – April 2011 listing

ABS data shows that new capital expenditure in the mining industry was $41.2 billion in FY11, the second highest on record. The Australian Bureau of Agricultural and Resource Economics and Sciences (**ABARES**) indicates that new capital expenditure in the mining sector is expected to increase significantly in FY11 to approximately $55.5 billion, an increase of 53% over FY10.[6]

McKinsey & Company, as part of a report on the urbanisation of China[7], predicts that by 2025:

- China will have 221 cities with populations greater than one million residents
- five billion square metres of road will be paved
- 40 billion square metres of floor space will be built in five million buildings.

This urbanisation process is expected to contribute to a steady demand for Australian commodities, even though China's Gross Domestic Product (**GDP**) growth is forecast to moderate to 8.5% in 2012 (compared with growth of 10.3% in 2010) due to the effect of government policies designed to ease inflationary pressures[8].

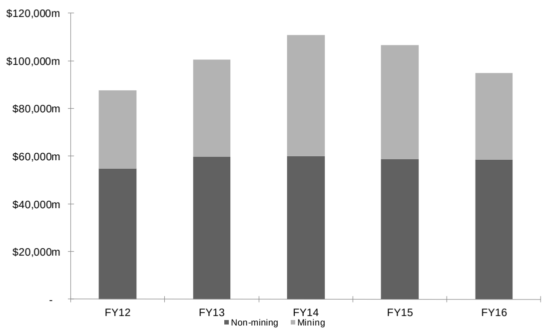
Other engineering construction

Over FY12 to FY16, engineering construction outside of the mining sector is forecast to remain at the higher levels experienced in FY11. The increased spending is a result of long periods of underinvestment in areas of Australia's infrastructure, expected population growth and the growth in mining activity.

The federal government has taken a more active role in infrastructure development since the onset of the global economic crisis. The third phase of Australia's fiscal stimulus plan included the longer term development of a number of infrastructure projects.

Key areas of expected infrastructure investment growth include the engineering construction sector expecting to grow at approximately 26% until FY14 and a compound average growth rate (**CAGR**) of 1.6% per annum to FY16 as set out below.

Figure 5: Forecast engineering construction



Source: Construction Forecasting Council

- Transport – the Federal Government has committed to investing approximately $15 billion on the country's road network over the next five years, through National Projects funding, and the extended Roads to Recovery Program (about $350 million per annum through FY14)[9]. Growth in Australia's export of commodities over the years has put a strain on port infrastructure and revealed gaps in rail infrastructure. Federal transport expenditures between FY09 and FY14 represent more than twice those of the previous six years in real terms[10]
- Telecommunications – the National Broadband Network is expected to be rolled out over eight years and estimated to cost approximately $36 billion

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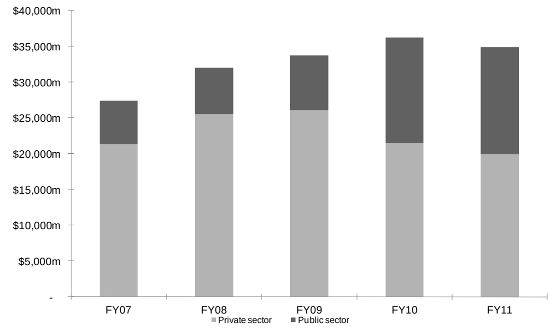
[6] ABARE Minerals and Energy Major Development Projects – April 2011 listing
[7] Preparing for China's Urban Billion, McKinsey Global Institute, March 2009
[8] Bureau of Resources and Energy Economics – September 2011
[9] IBISWorld
[10] OECD Economic Surveys Australia, November 2010

- Electricity – electricity distribution, generation and transmission is forecast to ease back over the short term as the industry waits for more certainty concerning the government's policy on climate change. Energy demand is expected to grow with increasing population and increasing energy consumption per capita. A range of variables including the forecast demand and the scale and age of the electricity networks will dictate the level of investment required.

3.6 Australian non-residential building construction

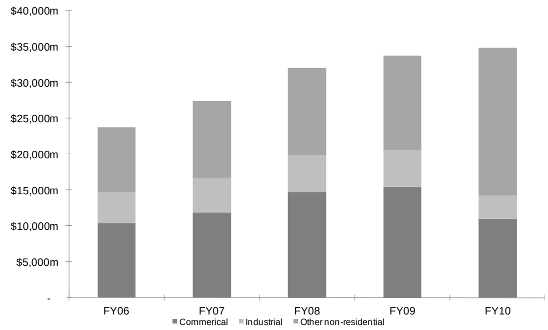
The non-residential building construction industry has typically been dominated by private sector spending and experienced strong growth between FY06 and FY08, particularly in the commercial sector. Prior to the global financial crisis, the abundance of credit lead to an oversupply of retail building space and office building space. From late FY08 to FY10 non-residential commencements across the private sector fell as the global financial crisis prevailed, business confidence deteriorated, and available debt capacity was restricted leading to declining spending on non-residential construction as outlined in the figures below.

Figure 6: Historical private versus public spending on non-residential building construction



Source: ABS

Figure 7: Historical spend on non-residential building construction by sector



Source: ABS

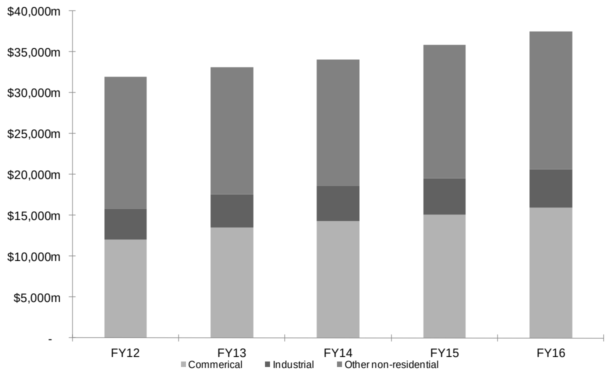
In 2009, the federal government introduced fiscal measures via the Government's Building the Education Revolution stimulus package which counteracted the contraction in private sector spending in FY10. The stimulus package included investment of $16.2 billion in educational facilities through infrastructure and refurbishment over the four years from FY09 to FY12 and a $5 billion Health and Investment Fund for Health Infrastructure.

The current weakness in commercial and industrial building construction is expected to constrain the total level of private non-residential building construction activity over the forecast period to FY15. As growth in retail sales improve property fundamentals and encourage retail construction[11], the commercial building sector is expected to gradually recover. As the commercial and industrial building sectors improve, the current high level of public sector spending in educational building activity will decline as the Australian federal government's stimulus schemes wind down. However, Australia's ageing population is driving demand for aged care facilities and specialised infrastructure. The health and aged care segment is a fast growing segment which is expected to experience a compound average growth rate of 5% over the next five years[12].

[11] IBISWorld
[12] Construction Forecasting Council

The figure below sets out the forecast spend on non-residential building construction in Australia over the next five years.

Figure 8: Forecast spend on non-residential building construction



Source: Construction Forecasting Council

4 Profile of National Hire Group

4.1 Overview

National Hire Group is publicly listed in Australia (ASX code: NHR) with a market capitalisation of approximately $488 million (as at 11 October 2011) with approximately 148.5 million ordinary shares outstanding and one million options issued.

National Hire Group operates a wholly owned equipment sales and support business under the name AllightSykes. National Hire Group also has a 46.1% economic interest in Coates Group, following the acquisition of Coates Hire Limited (**Coates**) in January 2008 by National Hire Group and the Carlyle Group.

In November 2010, National Hire Group acquired Sykes Group, a manufacturer and distributor of auto prime pumps (standard or custom built) for the mining, construction and civil engineering industries for $50 million (plus a further $5 million if certain performance hurdles are met).

The investment in Coates Group has contributed the majority of the earnings for National Hire Group since January 2008, however, the recent Sykes acquisition has resulted in the 100% owned AllightSykes business becoming a more significant contributor to the earnings for the group. We discuss each of these businesses in further detail below in section 4.3 and section 4.4.

4.2 Company history

An overview of National Hire Group's history is provided in Figure 9 below.

Figure 9: Simplified National Hire history

1981	• National Hire was established as an equipment hire company engaged in the provision of tools to small to medium sized contractors
1997	• In June, National Hire was listed on the ASX
2004	• In March, WesTrac Equipment Pty Limited acquired 59.7% of National Hire. As part of the transaction, National Hire re-branded its NSW and ACT rental stores to Cat Rental Stores • In December, National Hire completed the acquisition of the Allight business for $65 million through the issue of scrip to WesTrac and other shareholders of Allight • Also in December, National Hire acquired The Cat Rental Store Business in WA for $47 million through the issue of scrip to WesTrac. These two transactions helped shift National Hire's exposure from the residential sector to the mining and infrastructure sectors
2008	• In January, National Hire and the Carlyle Group completed their joint purchase of the Coates Group. National Hire funded its portion of the acquisition through the transfer of its rental services division to Coates Group as well as $57 million in cash
2010	• In April, Seven Network Limited merged with the WesTrac group of companies, which included WesTrac's interest in National Hire Group to become Seven Group Holdings • In November, National Hire completed the acquisition of Pump Rentals Pty Limited, the owner of the Sykes Group, to allow it to expand its product offering and export market penetration
2011	• In September, SGH announced the Takeover Offer

Source: Mergermarket, Factiva, IBISWorld, National Hire 2004 Information Memorandum

4.3 Profile of AllightSykes

AllightSykes is an equipment sales and support business engaged in the design, manufacture, assembly and distribution of a number of proprietary products. The main focus is on pumps and lighting towers which predominantly service the mining and construction industries. Other industries serviced include construction, engineering, earthmoving, road works, sporting events, government and defence.

The acquisition of the Sykes Group expanded Allight's pre-existing product range and export market penetration for its equipment sales and support business under the banner AllightSykes and AllightPrimax. Allight's pump product offering has now expanded from being predominantly a de-watering solution to a wide range of new functions including trash transfer, slurry and sewage handling.

Sykes pumps are considered a premium brand in the global pump industry with manufacturing facilities in Newcastle (Australia) and Dubai. Sykes Group has established distribution networks and customers across the United Arab Emirates, Africa, Indonesia, the US and New Zealand. Sykes Group employs approximately 100 people and generated revenues of approximately $56 million for FY11 (on a standalone basis).

Key products offered include:

- **mobile lighting equipment -** a large range of versatile mobile lighting towers, some of which are designed for the unique conditions encountered in Australia's mining regions
- **water pumps –** vast range of pumps which include, among others, specialised de-watering pumps that incorporate the dri-prime process, which minimises the need for personnel to come into contact with the liquid being pumped. The range of pumps available can be used to remove water, trash, slurry and sewage from mining and construction sites
- **power generation equipment -** a variety of air and water-cooled, diesel and gas based generators for prime, standby and emergency power. Used for a variety of purposes including the provision of power to large mobile lighting equipment and on-site power supply for commercial uses
- **diesel engines -** multi-purpose engines used in a variety of industries including construction and mining
- **air compressors -** used to provide compressed air for a large range of applications.

AllightSykes has a number of relationships with global manufacturers of power generation, engine and compression products. AllightSykes undertakes some level of fabrication and assembly of their products.

AllightSykes is a distributor of Perkins engines, FG Wilson power generation sets, Rotair portable air compressors and now Sykes auto prime pumps. AllightSykes also provides ongoing customer support through its spare parts and service divisions which cover the entire AllightSykes product range. AllightSykes has distribution rights for FG Wilson in Australia, New Zealand and the Pacific Island nations and Perkins engines in Australia.

As a result of ITT Corporation's US$585 million June 2010 acquisition of Godwin Pumps, a supplier of automatic self-priming portable pumps, AllightSykes' distribution agreement for Godwin equipment in Australia and Indonesia ceased from May 2011.

Research and development programs, based in Western Australia for mobile lighting towers and Newcastle for pumps, continually improve on AllightSykes' proprietary product range.

AllightSykes has approximately 350 employees in offices across Australia and overseas. The majority of AllightSykes' sales are currently in Australia (with Coates Group being the largest customer), however, approximately 25% of sales are generated overseas including the US, United Arab Emirates, New Zealand, South Africa and Indonesia.

Relationship with Coates Group

National Hire previously operated the Cat Rental Store business in Western Australia (WA), New South Wales (NSW) and the Australian Capital Territory (ACT), being WesTrac Pty Limited's (WesTrac) Caterpillar dealership territories[13]. However, following the acquisition of Coates in January 2008, National Hire through WesTrac sub-licensed the operation of its Cat Rental Store business to Coates Group.

National Hire and AllightSykes are parties to a preferred supplier agreement with the Coates Group relating to equipment in AllightSykes' product range. The agreement has a term of five years from 9 January 2008, the date of the Coates acquisition, and may be extended for an additional three years by Coates Group. National Hire management consider the terms with Coates Group are at arm's length having regard to the volume of business generated by Coates Group.

4.4 Profile of the Coates Group

4.4.1 Overview

The Coates Group provides a broad range of general hire products across industries including mining, construction, offshore mining, the government, industrial maintenance, event services, tradespeople and the home handyman market.

Across Australia, the Coates Group has more than 2,700 employees and over 200 branches and satellite locations with its own maintenance and transport capability. Coates Group has approximately 20% share[14] of the plant hire and leasing market in Australia. In FY11, over 96% of the Coates Group revenue was generated in Australia. Coates Offshore and Coates Hire Indonesia generate small amounts of revenue from outside of Australia.

The business is heavily levered to the mining and infrastructure sectors with a large proportion of revenues sourced from large mining and infrastructure projects. The Coates Group has a diverse customer base with no specific contract or customer representing a significant concentration risk for the business.

4.4.2 Company history

Prior to January 2008, Coates was an Australian listed company and the largest general equipment hire company in Australia with over 190 branches and satellite locations and an annual turnover of approximately $770 million.

In January 2008, National Hire and the Carlyle Group jointly acquired the majority economic interest in Coates and merged it with the National Hire rental business to form the Coates Group via a scheme of arrangement. At the time of the acquisition, National Hire's rental business was the second largest general equipment hire company in Australia with approximately 74 sites and an annual turnover of approximately $220 million.

Coates was acquired for $1.66 billion on an equity value basis, funded with a combination of senior and subordinated debt and equity. At acquisition, Coates was merged with the National Hire Group rental business to form the Coates Group. National Hire and the Carlyle Group each contributed approximately $348 million for a 47% economic interest each in the Coates Group. National Hire Group funded its economic equity interest in the group in part by the transfer of its rental business to the Coates Group for approximately $278 million. The balance of the equity funds were provided in cash.

In 2008, the Coates Group commenced the divestment of the assets of the Allied Equipment business which had been acquired by Coates in 2005. Allied Equipment provided the hire and sale of large earthmoving equipment predominantly to mine operators and mining contractors in Australia. The sale of Allied Equipment's assets was completed in April 2010.

[13] WesTrac has a 66.2% interest in National Hire Group and is the sole authorised Caterpillar Inc dealer in WA, NSW and the ACT in Australia and related entities are sole authorised Caterpillar dealers in eight provinces and municipalities in North Eastern China.
[14] IBISWorld, August 2011

A number of small general hire business acquisitions were made by the Coates Group in FY10 and FY11 to the aggregate value of $17.2 million and $38.2 million, respectively. In October 2011, the National Hire Group announced the completion of the acquisition by Coates Group of Tru-Blu Hire Australia Pty Limited (**Tru-Blu**), a general equipment hire business with 22 branches, 19 of which are in WA. The Tru-Blu acquisition will enhance Coates Group's capability to further target the small to medium enterprise customer market.

4.4.3 Operations

Coates Australia

The Coates Group in Australia (**Coates Australia**) manages over one million individual assets across 30 different product categories and is the biggest general equipment hire company in the country covering both metropolitan and regional areas. Coates Australia has branch infrastructure that is able to deliver equipment to most locations in Australia.

Coates Australia operates predominantly in the mining, civil construction and event sectors providing products such as excavation equipment, access equipment, power generation, lighting, air compressors, specialist pumps, portable buildings and toilets and traffic management equipment. In addition, Coates Australia specialises in industrial services providing shutdown equipment and services to support planned maintenance programs. Other specialised services include equipment training and tool store equipment management services.

The Australian markets serviced by the Coates Group are further described in the table below:

Table 5: Coates Australia Market Sectors

Market	Coates Australia in these markets
Civil Construction	Expert in infrastructure, roads, construction, pipeline, bridges, railway development and desalination plant construction equipment
Construction	Flexible and responsive to the industry's cyclical demand and project to project requirements
Events	Outdoor or indoor event hire capabilities such as portable buildings and toilets, crowd control
	Barriers, generators and lighting
Government	Supported all levels of government as equipment supplier to infrastructure projects around the country
Mining	Equipment for harsh environments and remote locations including provision of mine specific remote branche and training for equipment usage via Coates Hire Training Services
Oil and gas	Experience in end-to-end project planning and understanding of the complexities of operating within environmental management guidelines
Tradespeople	Catering to Carpenters, Plumbers, Electricians, Gardeners and Landscapers for equipment hire needs.

Source: Coates Australia website

The Coates Group holds a sub-licence from WesTrac to operate the Cat Rental Stores. There are approximately 94 Coates branded Cat Rental Stores in WA, NSW and the ACT leasing small to mid-sized Caterpillar equipment including skid steer loaders, excavators, motor graders, wheel loaders and work tools. The Coates Group do not generally sub-contract or provide any equipment operator personnel and are focused purely on equipment hire.

Sundry gear and smaller equipment are popular for customers to hire because it removes the onerous tasks associated with ownership and managing the maintenance of the equipment particularly for large and complex mining and infrastructure projects. Equipment inspections are carried out by Coates Australia before the equipment is hired out.

The key determinant for winning business in the hire industry is being able to provide the right equipment when it is required. An important business element is therefore the timing of capital expenditure required to expand the hire fleet and/or acquire property and equipment. The timing of capital is driven by forecast customer requirements and specific project requirements.

Coates Australia has a diverse range of customers and is not reliant on a single customer or project to drive its business. A fundamental success factor for Coates Australia is the strong relationships it has with its customers and project contractors. In FY11, Coates Australia's total revenue was approximately evenly split between its internal operating regions (North, East, South and West).

Coates Offshore

Established in 1999, Coates Offshore is based in Aberdeen, Scotland with approximately 50 employees and provides specialised equipment to offshore oil and gas operations including compressed air and steam generators. Approximately 50% of Coates Offshore revenues are generated in the North Sea region (UK, Netherlands and Norway), with the remaining business derived from other offshore customers around the world.

Coates Indonesia

In 1993, Coates Hire Indonesia was established in response to the strong demand for power generation and a range of other equipment mainly to the mining, oil and gas industries. The hire business also has some exposure to the civil construction, pipeline maintenance and shipyard sectors in Indonesia. The business also has a capital sales division for AllightSykes mobile lighting towers and Godwin pumps. Coates Hire Indonesia has over 70 employees and has an office in Jakarta, with five branches located in Balikpapan, Pekanbaru, Sangetta, Sorowako and Surabaya.

Relationship with WesTrac

The Coates Group operates the Cat Rental Stores under sub-licence from National Hire Group (through WesTrac), who has entered into a deed of undertaking with the Coates Group that, subject to a number of exceptions, it will not be involved in any business of hiring certain equipment and related services. The sub-licence is contingent on WesTrac maintaining voting power of at least 51% in National Hire and National Hire maintaining 50% of the voting power in Coates Group.

4.5 Capital structure and shareholders

4.5.1 National Hire Group

The National Hire Group shares are tightly held with WesTrac Pty Ltd and Elph Pty Ltd holding over 88% of the ordinary share capital as set out in the table below:

Table 6: National Hire Group shareholders as at 17 October 2011

Shareholder	Number of shares held	% of shares issued
WesTrac Pty Ltd[1]	98,300,404	66.2
Elph Pty Ltd[2]	32,559,745	21.9
McNeil Nominees Pty Limited	4,051,402	2.7
National Nominees Limited	3,429,253	2.3
Stirhill Pty Limited[3]	1,991,877	1.3
Substantial shareholders	**140,332,684**	**94.5**
Other shareholders	8,155,261	5.5
Total shareholders	**148,487,945**	**100.0**

Source: National Hire Group

Notes:

1. WesTrac is National Hire Group's immediate parent entity with National Hire Group's ultimate parent entity being SGH
2. Investment vehicle for Dale Elphinstone, who is director of National Hire and was a shareholder in Coates Hire Limited before the National Hire/Carlyle transaction formed the Coates Group. A subscription agreement dated 27 August 2007 was entered into with National Hire where Elph subscribed to a share placement of approximately 28.66 million National Hire Group shares at $3.00 per share to raise approximately $86 million
3. Stirhill Pty Limited is a company associated with Mr Stephen Donnelley, National Hire Group director

National Hire Group has 882 shareholders with the 20 largest shareholders representing a combined effective interest of 96.8% of National Hire Group's outstanding shares.

National Hire established a share option plan in 2005 to provide a long-term incentive scheme for senior management (including executive directors). Under the options plan, eligible employees are granted options (over unissued ordinary National Hire Group shares) which only become exercisable if certain performance criteria are met. Participation in the option plan is at the discretion of the board with the only current participant being the managing director of National Hire who has been granted 1 million options for no consideration. These options are first exercisable on 21 November 2011 at an exercise price of $2.00 and will expire on 21 November 2013. All options currently on issue have vested.

4.5.2 The Coates Group

The ownership structure of the Coates Group is presented in the table below.

Table 7: Coates Group Economic Ownership

Company	Legal Ownership	Economic Interest
National Hire	100%	46.1%
The Carlyle Group	-	46.1%
Financial investors	-	6.0%
Management	-	1.8%

Source: Deloitte Corporate Finance analysis

The equity capital of the Coates Group comprises 100 ordinary shares and 737,900,482 convertible notes issued at $1.00 each.

Convertible notes

In order to fund the acquisition of Coates in January 2008, National Hire and the Carlyle Group each subscribed for approximately $348 million of convertible notes (**Convertible Notes**). In the event of conversion of the Convertible Notes, National Hire and the Carlyle Group would hold an equal number of ordinary shares.

The Convertible Notes are classified as equity in the financial statements of the Coates Group. There is no requirement to pay interest on the Convertible Notes and neither National Hire nor the Carlyle Group are obliged to provide any further funding, whether by debt or equity, to the Coates Group.

Financial investors also subscribed for subscriber Convertible Notes, currently representing approximately 6% of the economic interest in the Coates Group. Subscriber Convertible Notes may be converted into non-voting ordinary shares in the Coates Group on maturity.

Management equity plan

From 9 January 2008, a management equity plan (**MEP**) was established providing a long term incentive scheme for senior management (including executive directors). The share options granted under the MEP carry the right to participate in any dividend paid but do not carry voting rights. The share options under the MEP are exercisable 12 months after the exit of a shareholder of the Coates Group at an exercise price determined by the share price achieved on exit. Coates Group has the ability to offer cash to the MEP holders rather than equity in the company. As at 30 June 2011, there were approximately 41,950,716 share options granted under the MEP with option expiry 24 months after an exit event.

Investment deed

Prior to the acquisition of Coates in January 2008, National Hire, the Carlyle Group and Coates Group became party to an investment deed (dated 2 October 2007) that records the parties' agreement in relation to the operation, control and management of the Coates Group (**Investment Deed**). As a consequence of the terms of the issue of the Convertible Notes and the Investment Deed, National Hire and the Carlyle Group each hold a 50% effective voting interest in the Coates Group.

The Investment Deed provides that, while National Hire holds at least 33.3% of the ordinary and convertible securities issued by the Coates Group and retained collectively by National Hire and the Carlyle Group:

- National Hire will have the right to appoint the chairman of the Coates Group

- certain matters require the approval of National Hire and the Carlyle Group (including changing the capital structure or merger or re-organisation of the Coates Group)
- certain other matters require approval by at least one of the director nominees (including acquisition, termination or closure of a material business other than in accordance with the business plan, incurring material debts, or materially changing employee remuneration).

The Investment Deed includes exit provisions regulating how either party may sell their interests. Under the exit provisions, National Hire and Carlyle have a first right of refusal (under either a trade sale or a listing) and tag-along and drag-along rights in respect of any offers from third parties.

Pre-emptive rights

The selling party must provide the other party with a notice of sale setting out the terms of sale and cash consideration offered by third parties. The selling party must first offer the sale of shares to the other party at the price and on the same terms specified in the notice of sale (subject other terms and conditions in relation to timing).

Tag-along rights

If the above pre-emptive rights are not exercised, a tag-along notice must be provided by the selling party to the other party detailing the identity of the third party buyer and a copy of the sale agreement with a statement confirming that the other party has tag-along rights to also sell all of its shares on the same terms. For example, if National Hire was the selling party and the Carlyle Group exercised its tag-along rights, National Hire can only complete the sale if it procures the third party buyer to purchase all of Carlyle Group's shares.

Drag-along rights

If the selling party holds more than 33.3% of the Coates Group it may require the other party to sell its shares to the third party buyer at the same price and on the same terms as the selling party by including a statement to this effect in the notice which stipulates the other party's tag along rights. For example, if National Hire was the selling party and had drag along rights which it exercised, , the Carlyle Group would be required to sell its interest on the same terms to the same third party buyer.

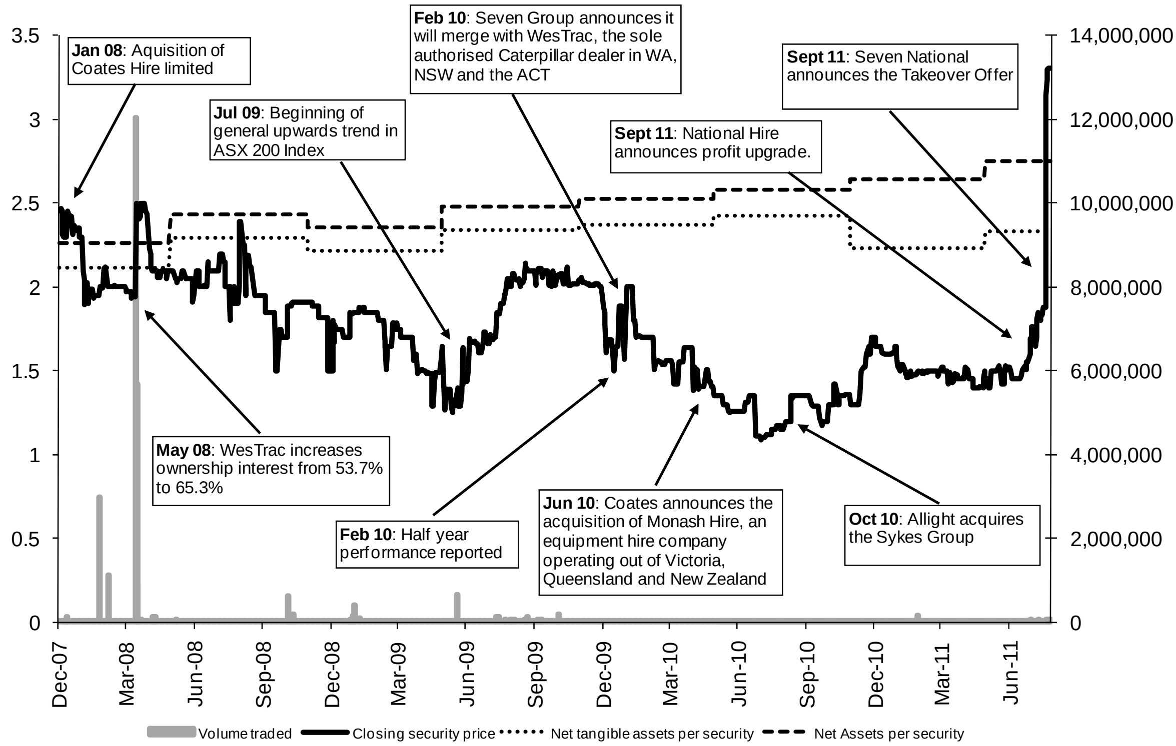
Financial investors can also participate in the tag-along rights but have no pre-emptive rights, and may be compelled to sell their investment pursuant to the drag along rights.

The terms of the Convertible Notes and the Investment Deed outlined above effectively give each of National Hire and Carlyle Group, for so long as they maintain their existing holdings, veto power over operational matters and capital structuring and effectively equal rights in respect of the financial and operational affairs of the Coates Group.

4.6 Share price performance

We present below the share price movement, trading volume and net assets and net tangible assets per share for National Hire Group over the period from January 2008 to September 2011. The figure reflects the trading period since National Hire and the Carlyle Group jointly acquired the majority economic interest in Coates and subsequently merged it with the National Hire rental business.

Figure 10: National Hire Group share price performance



Source: Deloitte Corporate Finance Analysis

Elph subscribed for 19.9% of the share capital in National Hire in January 2008 at the time of the acquisition of Coates, and made a number of further acquisitions in 2008 and 2009[15]. In FY10, Elph acquired 1,005,656 additional shares at a weighted average price of $2.02 per share.

For the 12 months prior to the Takeover Offer, there were 2 million shares traded representing approximately 1.3% of total National Hire Group ordinary shares outstanding. Also during the 12 months in the lead up to the Announcement Date, there were 99 days where no shares changed hands indicating that trading in National Hire Group shares was relatively illiquid in terms of trading volumes.

Over the last three months, six months and one year to the Announcement Date, 0.5%, 0.9% and 1.3% of National Hire Group's total shares outstanding were traded, respectively. In contrast, Boom Logistics Limited, a similar sized company in the same sector, has had 19% and 49% of its shares traded over the same six month and one year periods, respectively, which is due in part to its large free float (the top 10 shareholders own approximately 38% of the company). Furthermore, Emeco Holdings Limited has had 70% and 124% of its shares traded over the same six month and one year periods , respectively, due in part to its large free float (the top 10 shareholders own approximately 30% of the company).

The free float of National Hire Group shares is only 12% with WesTrac's and Elph's combined shareholdings of 88.1%. Noting the illiquidity of trading in its shares, the main drivers of changes in the share price of National Hire Group were likely:

[15] In November 2009, Elph acquired 82,007 shares on market taking his total stake in National Hire Group to 22%

- the global financial crisis and the subsequent decrease in mining and construction activity which reduced hire demand during 2008 and the early part of 2009
- an increase in mining and construction activity and the general recovery in the share market coinciding with an upward trend in the share price from July 2009 to November 2009
- release of the results for the company. In particular, the FY10 full year results confirmed the difficult trading environment experienced in FY09 by both Coates Group and Allight continued in FY10
- National Hire Group management have provided guidance on the consolidated net profit after tax for the six month period to 31 December 2011 of $18 million to $24 million (inclusive of earnings attributable to the Coates Group).

As set out above, National Hire Group has traded at a discount to its net tangible assets for the majority of the period indicating that share trading in National Hire Group may not necessarily be reflective of the intrinsic value of its shares. This may have been influenced by the following factors:

- the lack of liquidity of the shares as mentioned above
- the lack of transparency in the future prospects for the Coates Group due to the holding structure of this investment which may result in some investors attributing a discount to this investment
- the composition of the shareholder register in that two shareholders own 88.1% of the shares
- there is no sell side research coverage of National Hire Group and there is very limited presence of institutional investors on the share register
- the uncertainty in respect of the timing and mechanism for either National Hire Group or its other majority shareholder to exit their investment in Coates Group which may result in some investors attributing a discount to this investment.

National Hire Group has seen a general increase in its share price since the beginning of 2011 due largely to improved sentiment from the recent increase in mining and construction activity.

Due to the above factors, recent share prices may not reflect a fair market value due to the lack of liquidity and transparency into the operations of the privately held Coates Group.

4.7 Financial performance

4.7.1 National Hire

The audited income statements of National Hire Group for the years ended 30 June 2009, 30 June 2010 and 30 June 2011 are summarised in the table below.

Table 8: Financial performance

	Jun-09 Audited ($ million)	Jun-10 Audited ($ million)	Jun-11 Audited ($ million)
Trading revenue	104.4	84.8	130.8
Other revenue	1.6	1.5	1.5
Total revenue	**106.0**	**86.3**	**132.3**
EBITDA (reported)	**6.8**	**2.9**	**10.3**
Depreciation and amortisation	(0.6)	(0.7)	(2.0)
EBIT (reported)	**6.3**	**2.2**	**8.3**
EBIT (normalised)	**6.1**	**2.1**	**12.6**
Net interest income/(expense)	0.3	0.2	(2.1)
Profit before tax excluding discontinued operations (reported)	**6.5**	**2.4**	**6.2**
Tax	(1.6)	(0.7)	(2.5)
NPAT	**4.9**	**1.7**	**3.7**
Share of the Coates Group profits	20.2	4.1	22.8
Reported NPAT	**25.0**	**5.8**	**26.5**
Other metrics			
Trading revenue growth (%)	n/a	(19)%	53%
EBITDA growth (%)	n/a	(57)%	249%
EBIT growth (%)	n/a	(65)%	274%
EBITDA margin (%)	6%	3%	8%
EBIT margin (%)	6%	3%	6%

Source: National Hire Group 2009, 2010, 2011 Annual Reports

Note: n/a = not available

We note the following in respect of National Hire Group's statements of financial performance:

- the 2011 results reflect seven months of earnings contribution from the Sykes Group acquisition representing approximately $34.7 million in revenues. If the acquisition had occurred on 1 July 2010 the total revenue contribution would have been in the region of $56.0 million. Transaction costs relating to the acquisition amounted to $1.8 million which are excluded from the normalised EBIT
- the 2011 revenue growth was attributed to both the Sykes Group acquisition as well as a general increase in mining activity that saw increased demand for lighting, power and pump equipment. The trading conditions

during 2010 were impacted by global uncertainty and the deferral of capital expenditure across the Australian mining sector. Likewise many infrastructure projects, both public and private were deferred as a result of the prevailing financial climate

- the reported revenue, EBITDA and EBIT are presented on a consolidated basis and as such National Hire's attributable revenue and profit on transactions and sales to Coates Group are eliminated. National Hire's attributable interest in Coates Group profits are recognised separately as a share of profit from associate accounted for using the equity method
- during 2011 earnings margins returned to levels observed in 2009 as revenue growth outstripped cost growth
- the 2009, 2010 and 2011 profit results include one-off revenue items associated with disposal of plant and equipment. The normalised EBIT exclude these items
- National Hire received a management fee from Coates Group of $1.5 million in each of the years presented above. This fee is intended to cover costs such as director fees, transaction support and other related corporate services
- a management fee of approximately $350,000 per annum was paid to Australian Capital Equity Pty Limited (ACE) by National Hire in 2009, 2010 and 2011
- no dividends were declared or paid since the acquisition of Coates Group

National Hire Group's reported financial performance includes its equity accounted share of the Coates Group's net profit after tax and consequently the reported earnings will continue to be heavily influenced by the financial performance of the Coates Group.

The EBIT presented in the table above are affected by a number of unusual, non-recurring items. In the table below we have removed these items to present a normalised level of EBIT.

Table 9: National Hire Group normalisation of earnings

	Jun-09 Audited ($ million)	Jun-10 Audited ($ million)	Jun-11 Audited ($ million)
EBIT (reported)	**6.3**	**2.2**	**8.3**
Gain on disposal of plant and equipment	(0.2)	(0.1)	(0.1)
Other non-recurring costs[1]	-	-	4.5
EBIT (normalised)	**6.1**	**2.1**	**12.6**

Source: Deloitte Corporate Finance analysis

Notes:

1. Other non-recurring items includes adjustment for the acquisition of Sykes Group

Future expectations

Following the acquisition of Sykes Group, the Allight business has been transformed. The utilisation of Sykes Group's international distribution network over the medium to longer term is expected to create additional opportunities for Allight's mobile lighting towers. AllightSykes is seeking to expand its foreign operations into Africa and the Americas to take advantage of its revised product range, brand and long term customer relationships in the global mining sector. FY12 earnings will benefit from the full year impact of this acquisition.

Growth in AllightSykes parts and service offering (currently domestic only) is expected to increase and contribute to a larger percentage of revenue over time. Opportunities include increasing the number of equipment sales with service agreements attached and revamping the parts business with a focus on global support.

The future performance of AllightSykes is expected to be strongly influenced by the performance of the mining sector as well as the level of building and construction to be undertaken as a consequence of the Australian Government's economic stimulus plan and the continued recovery in private sector activity in the mining and construction sectors.

However, potential risks include:

- economic shocks in key commodity export markets, such as China, which would have an adverse affect on Australian mining companies and those businesses that provide services to the mining sector
- deterioration in economic conditions in domestic building and construction markets
- expected synergies of Sykes Group acquisition could be lower than anticipated or delayed
- limited sales from the new growth regions of Africa and the US
- changes to the Australian Government's economic stimulus policies
- uncertainty surrounding the impact of the US and European debt crises on the Australian economy.

4.7.2 The Coates Group

The audited income statements of the Coates Group consolidated operations for the year ended 30 June 2009, the year ended 30 June 2010 and 30 June 2011 are summarised in the table below.

Table 10: Coates Group financial performance

	Jun-09 Audited ($ million)	Jun-10 Audited ($ million)	Jun-11 Audited ($ million)
Trading revenue	972.6	876.2	1,053.7
Other revenue	0.2	0.1	0.1
Total revenue	**972.8**	**876.3**	**1,053.8**
EBITDA (reported)	**427.7**	**338.2**	**411.0**
Depreciation and amortisation	(180.5)	(170.7)	(186.1)
EBIT (reported)	**247.2**	**167.6**	**224.9**
EBIT (normalised)	**258.2**	**173.9**	**236.5**
Net interest income/(expense)	(206.8)	(156.1)	(151.7)
Profit before tax excluding discontinued operations (reported)	**40.4**	**11.5**	**73.2**
Tax	(8.7)	0.8	(25.2)
NPAT	**31.7**	**12.3**	**48.0**
Other metrics			
Trading revenue growth (%)	n/a	(10)%	20%
EBITDA growth (%)	n/a	(21)%	22%
EBIT growth (%)	n/a	(32)%	34%
EBITDA margin (%)	44%	39%	39%
EBIT margin (%)	25%	19%	21%

Source: Coates Group financial statements lodged with ASIC, Deloitte Corporate Finance analysis

Note: n/a = not available; n/m = not meaningful

We note the following in respect of the Coates Group's statement of financial performance:

- trading revenue is generated predominantly from the hire of goods, with less than 1% of revenue generated from the sale of goods
- approximately 40% of operating expenditure relates to employee benefits expense indicating the labour intensity of the business. Other significant expenses include raw materials and consumables (21%) and freight and rehire (15%)
- depreciation and amortisation predominantly relates to plant held for hire
- bank loans of the group incurred interest at an average variable rate of 8.9% in 2011 (2010: 8.1%). The Coates Group enters into interest rate swap contracts and interest rate cap contracts to hedge exposure to fluctuations in interest rates
- during the global financial crisis where demand slowed, capital expenditure was delayed in response to the

change in demand. In FY11, the Coates Group invested significantly in growing capacity and therefore expect to benefit from this

- for the year to 30 June 2010 the Coates Group profit from continuing operations was affected by declining trading revenues and operating margins compared to the corresponding prior year period. Similarly to National Hire Group, the scale back of mine expansion and infrastructure projects as a consequence of the global economic uncertainty contributed to the decline in revenue and operating margins
- in 2008, Coates Group began a project to exit its Allied equipment business unit. As at June 2010 all assets had been disposed. The discontinued operations generated a profit of $10.6 million in 2009 and a loss of $3.4 million in 2010. Both of these results of which have been excluded from the above table
- no dividends were declared or paid during the year ended 30 June 2011.

The EBIT presented in the table above are affected by a number of unusual, non-recurring items. In the table below we have removed these items to present a normalised level of EBIT.

Table 11: Coates Group normalisation of earnings

	Jun-09 Audited ($ million)	Jun-10 Audited ($ million)	Jun-11 Audited ($ million)
EBIT (reported)	**247.2**	**167.6**	**224.9**
Restructuring costs	7.5	3.9	1.9
Other non-recurring costs	3.5	2.4	2.8
One-off tax adjustment	-	-	6.9
EBIT (normalised)	**258.2**	**173.9**	**236.5**

Source: Deloitte Corporate Finance analysis

Future expectations

In the longer term financial performance is likely to be influenced by further development of larger mining and resource projects building and construction to be undertaken as a consequence of the Australian Government's economic stimulus.

Committed projects such as the $29 billion Wheatstone natural gas project in WA generating 6,500 jobs during the construction phase will help underpin this growth.

In addition, future growth is expected to be underpinned by the continued investment in the fleet during FY12 after a substantial period of underinvestment up until FY11. The acquisition of Tru-Blu and the full year impact of other recent bolt-on acquisitions should provide additional growth prospects for the Coates Group.

However, potential risks include:

- deterioration in economic conditions, in particular in key commodity export and domestic building and construction markets
- changes to the Australian Government's economic stimulus policies
- economic shocks in key commodity export markets, such as China, which would have an adverse affect on Australian mining companies and those businesses that provide services to the mining sector
- uncertainty surrounding the impact of the US and European debt crises on the Australian economy.

National Hire Group management have reported it is unlikely Coates Group will pay dividends until debt levels within the Coates Group are substantially reduced.

4.8 Financial position

4.8.1 National Hire

The audited balance sheets of National Hire Group as at 30 June 2009, 30 June 2010 and 30 June 2011 are summarised in the table below.

Table 12: Financial position (excludes equity investment in Coates Group)

	Jun-09 Audited ($ million)	Jun-10 Audited ($ million)	Jun-11 Audited ($ million)
Cash and cash equivalents	5.7	15.7	6.7
Receivables	19.1	22.0	39.6
Inventories	41.5	35.5	79.3
Other current assets	5.0	2.7	-
Total current assets	**71.4**	**75.8**	**125.6**
Deferred tax assets	-	2.9	-
Property, plant and equipment	1.4	2.1	5.1
Intangibles	21.1	22.8	61.4
Total non-current assets	**22.6**	**27.8**	**66.5**
Payables	24.0	39.0	37.2
Borrowings	-	0.3	51.9
Current tax liabilities	-	-	6.6
Provisions	0.3	0.3	10.5
Other current liabilities	0.1	-	-
Total current liabilities	**24.5**	**39.7**	**106.2**
Borrowings	-	-	0.1
Deferred tax liabilities	8.3	-	12.1
Other non-current liabilities	0.2	0.2	2.6
Total non-current liabilities	**8.4**	**0.2**	**14.8**
Net assets	**61.0**	**63.8**	**71.0**
Net tangible assets	**39.9**	**41.0**	**9.6**

Source: National Hire Group 2010 and 2011 Annual Reports, National Hire Group management

Note:

1. The above balance sheet excludes the equity accounted investment in Coates Hire

We note the following in respect of National Hire Group's balance sheet:

- National Hire Group utilised debt facilities to partially fund the acquisition of Sykes Group in FY11, resulting in a turnaround from a net cash position of $15 million at June 2010

- inventory has increased over the year to June 2011 as trading conditions improved and the company grew inventory of Perkins and Wilson generators and engines. The company also took on inventory associated with the acquisition of Sykes Group
- intangible assets as at 30 June 2011 are comprised of goodwill of $45.8 million (75%), distribution agreements of $8.0 million (13%), brand names of $3.1 million (5%), customer relationships of $2.2 million (3%), computer software of $1.4 million (2%) and research & development of $0.9 million (1%). The increase from FY10 is primarily driven by intangible assets acquired and recognised as part of the Sykes Group acquisition
- the deferred tax liability of $18.2 million primarily relates to timing differences mainly around discontinued operations and distribution agreements
- the increase in payables primarily relates to an increase of tax related amounts payable to related parties.

4.8.2 The Coates Group

The audited balance sheets of the Coates Group's as at 30 June 2009, 30 June 2010 and 30 June 2011 are summarised in the table below.

Table 13: Coates Group financial position

	Jun-09 Audited ($ million)	Jun-10 Audited ($ million)	Jun-11 Audited ($ million)
Cash and cash equivalents	268.3	334.4	161.2
Receivables	181.1	175.9	214.2
Inventories	5.2	4.7	6.1
Current tax assets	6.4	0.9	-
Other current assets	68.1	-	-
Total current assets	**529.1**	**515.9**	**381.5**
Receivables	7.6	20.7	0.1
Deferred tax assets	24.6	12.3	6.3
Property, plant and equipment	997.1	934.1	1,114.3
Intangibles	1,360.4	1,360.9	1,375.1
Other current assets	3.4	0.4	0.3
Total non-current assets	**2,393.2**	**2,328.5**	**2,496.0**
Payables	114.3	143.3	219.9
Borrowings	6.9	0.3	19.8
Provisions	29.5	29.7	34.7
Other current liabilities	33.5	9.5	0.7
Total current liabilities	**184.2**	**182.8**	**275.1**
Payables	5.5	7.6	2.6
Borrowings	1,968.1	1,875.4	1,769.5
Other non-current liabilities	18.1	4.8	11.0
Total non-current liabilities	**1,991.7**	**1,887.8**	**1,783.1**
Net assets	**746.4**	**773.9**	**819.3**
Net tangible assets	**(614.0)**	**(587.1)**	**(555.8)**

Source: Coates Group financial statements lodged with ASIC

We note the following in respect of the Coates Group balance sheets:

- the company maintained a net debt position of $1,628 million comprising cash of $161 million and debt of $1,789 million at June 2011
- working capital balances are reflective of debtors and payables incurred in the ordinary course of business and increases at June 2011 are reflective of increased trading activity

- property, plant and equipment predominantly comprises the Coates Group's equipment hire fleet. Equipment balance increased approximately $180 million during 2011 (after a decline over FY10) due largely to replenishment of the fleet following a scaling back of investment during the global financial crisis
- intangible assets predominantly relate to goodwill recorded following the acquisition of the Coates business by the Coates Group
- current provisions primarily relate to employee entitlement provisions for its workforce of approximately 2,750 staff
- at June 2011 the company had a net derivative liability of $5.2 million which reflects the fair value of obligations under its debt hedging contracts. The company utilises hedging instruments to hedge the interest rate on a large percentage of its debt balance.

4.8.3 Debt profile

In order to fund the acquisition of Coates in 2008 and to refinance the existing Coates borrowings, in addition to the equity funds contributed by National Hire and the Carlyle Group, the Coates Group procured senior syndicated debt facilities totalling $2.26 billion (**Senior Facilities**). The Senior Facilities included a senior term loan of $2.025 billion (**Senior Term Loan**) and capital expenditure and working capital facilities totalling $235 million. The financing also included $110 million of unlisted subordinated notes (**Subordinated Notes**). The current margins on the senior facilities range from 212.5 basis points to 312.5 basis points.

The Senior Term Loan and the Subordinated Notes were arranged for the purpose of funding the acquisition of Coates ($1.66 billion) and the National Hire rental business as well as refinancing existing Coates borrowings. The key terms of the Senior Facilities at the time of acquisition of Coates were:

- the duration of the agreement is six years with a bullet repayment required at maturity in December 2013
- guarantees are provided by Coates Group and each of its subsidiaries from time to time.

As at 30 June 2011, the Coates Group had bank loans of $18 million in current borrowings and approximately $1,791.7 million in non-current borrowings and was in full compliance with its debt covenants.

We understand that no refinancing of debt is triggered in the event of National Hire Group being acquired 100% by SGH and its subsidiaries or if National Hire Group is delisted.

5 Valuation methodology

5.1 Valuation methodologies

To estimate the fair market value of the shares in National Hire Group we have considered common market practice and the valuation methodologies recommended by ASIC Regulatory Guide 111, which deals with the content of independent expert's reports. These are discussed below.

5.1.1 Market based methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its share or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company's recent share trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

5.1.2 Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

5.1.3 Asset based methods

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies.

5.2 Selection of valuation methodologies

We are of the opinion that the most appropriate methodology to value National Hire Group (inclusive of its investment in Coates Group) is the capitalisation of maintainable earnings method due to the following factors:

- there is an adequate number of publicly listed companies with operations sufficiently similar to those of National Hire and Coates Group to provide meaningful analysis
- National Hire and Coates Group's operating assets do not have a finite lifespan
- there are no reliable long-term cash flow forecasts thus the discounted cash flow method is not appropriate as a primary valuation methodology.

6 Valuation of National Hire Group

6.1 Summary

Deloitte Corporate Finance has estimated the fair market value of a National Hire Group share to be in the range of $3.66 to $4.30 on a control basis. We arrived at this opinion utilising the capitalisation of maintainable earnings approach.

For the purpose of our opinion fair market value is defined as the amount at which National Hire Group shares would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. We have not considered special value in this assessment.

6.2 Capitalisation of maintainable earnings

The capitalisation of maintainable earnings method estimates fair market value by capitalising future earnings using an appropriate multiple, adding any surplus or non-operating assets, deducting net debt and applying a premium for control. To value National Hire Group using the capitalisation of maintainable earnings requires the determination of the following:

- an estimate of National Hire Group's maintainable earnings which has been developed based on an estimate of National Hire's future maintainable earnings and National Hire Group's attributable interest in Coates Group's future maintainable earnings
- an appropriate earnings multiple
- the value of any surplus assets attributable to National Hire Group
- the level of net debt attributable to National Hire Group
- an appropriate premium for control.

Our considerations on each of these are discussed separately below.

6.2.1 National Hire Group attributable future maintainable earnings

Future maintainable earnings represent the level of maintainable earnings that the existing operations could reasonably be expected to generate. We have selected EBIT as an appropriate measure of earnings for National Hire Group because earnings multiples based on EBIT are less sensitive to different financing structures and effective tax rates than multiples based on NPAT, and partially take account of different capital expenditure requirements, which are ignored by multiples of EBITDA. This also allows a better comparison with earnings multiples of other companies.

In determining future maintainable earnings we have had regard to:

- internal budgets and business plans for National Hire and Coates Group including the FY12 budget
- recent trading results including National Hire Group's September 2011 year-to-date performance
- National Hire Group and Coates Group actual reported results for the years ended FY09, FY10 and FY11
- National Hire Group's recent net profit after tax guidance for the six month period to December 2011 of $18 million to $24 million which is representative of National Hire and Coates Group attributable profits. Annualising the half year guidance implies an EBIT attributable to National Hire of in the region of $130 million to $150 million
- normalisation adjustments affecting National Hire's earnings including recent transaction costs and the estimated full year contribution to National Hire's earnings as a result of the Sykes Group acquisition as well as gains recorded on the disposal of property, plant and equipment

- normalisation adjustments affecting Coates Group's earnings including the estimated contribution to Coates Group's earnings of the Tru-Blu acquisition, gains and losses made on the disposal of property, plant and equipment and other one-off revenue and expense items
- the downturn in the mining and construction industries experienced in FY09 and FY10 to which both National Hire and Coates Group were exposed, the cyclical nature of these industries and the recovery expected particularly in the Australian mining sector
- industry and comparable company growth rates.

The table below presents historical adjusted EBIT for National Hire and Coates Group as well as a forecast estimate of National Hire Group's half year earnings to 31 December 2011 and our selected future maintainable earnings for National Hire Group of $160 million EBIT.

Table 14: National Hire Group – EBIT

	Jun-09 Actual ($ million)	Jun-10 Actual ($ million)	Jun-11 Actual ($ million)	Implied Annualised Dec-11 Guidance ($ million)	Selected maintainable earnings ($ million)
National Hire adjusted EBIT	6.1	2.1	12.6	n/a	
Coates Group adjusted EBIT	258.2	173.9	236.5	n/a	
Coates Group adjusted EBIT attributable to National Hire Group	119.0	80.2	109.0	n/a	
National Hire Group attributable adjusted EBIT	**125.1**	**82.3**	**121.6**	**150.0**[1]	**160.0**
Implied EBIT growth		*(34)%*	*48%*	*23%*[2]	*32%*[2]

Source: National Hire Group, Deloitte Corporate Finance analysis

Notes:

1. The implied attributable EBIT is an indicative estimate based on the high end of National Hire Group's 31 December 2011 half year profit guidance of $18 million to $24 million. This assumes a simple annualisation of profits, a 30 % tax rate and an interest expense based on the FY11 interest expense adjusted for an increase in the estimated net debt of National Hire and Coates Group. This implied full year EBIT does not represent a formal profit guidance or budget and does not take into account any company specific factors such as seasonality of earnings which may cause the simplistic doubling of the half year guidance to be inaccurate
2. Implied EBIT growth over FY11 National Hire Group attributable adjusted EBIT.

The selected maintainable earnings reflects:

- the low point in industry cycles experienced in FY10 and FY11 and the uplift in earnings through impact of the significant investment in the Coates Group hire fleet which is expected to continue into FY12
- the exposure that National Hire and Coates Group product offering has to high growth sectors of the Australian economy in particular mining and infrastructure projects
- the full year earnings contribution of recent acquisitions including Sykes Group (by National Hire) and Tru-Blu (by Coates Group)
- the seasonality inherent in the business whereby hire sales tend to decline in the lead up to December and therefore the annualised profit guidance for the six months to December 2011 may be lower than that expected for the second half of FY12

- we note that our selected maintainable earnings implies earnings growth of 32% over the 2011 actual, which is not inconsistent with the growth forecast for Australian industry peers in the Australian machine and equipment hire industry of 36% to FY12 and 16% for FY13 and the forecast spending on Australian heavy industry including mining projects of 25% over the same period[16].

6.2.2 Earnings multiple

We have determined an earnings multiple in the range of 8.25 times to 8.75 times EBIT, on a minority basis.

In selecting these earnings multiple we have considered:

- earnings multiples derived from share market prices of comparable listed companies
- prices achieved in mergers and acquisitions of comparable companies
- company specific factors regarding National Hire Group and Coates Group impacting their growth prospects and risk profile.

These considerations are discussed separately below.

Market trading multiples

The share price of a listed company provides evidence of the market value of a minority interest in that company.

We have compiled security market trading multiples for companies comparable to National Hire Group. These companies, together with their earnings multiples, are summarised in the following table.

Table 15: Earnings multiples averages – market trading

	Gearing	EBIT Margin 2012	EBIT Multiple 2011	EBIT Multiple 2012[2]
Australian machine and equipment hire - Average	31%	19%	9.3x	6.3x
International machine and equipment hire - Average	40%	11%	13.6x	10.4x
Mining equipment companies and contractors - Average	5%	10%	10.3x	9.2x

Source: Thomson Reuters, Capital IQ, Deloitte Corporate Finance analysis

Notes:

1. Historical earnings observed from the last issued annual report. Forecast earnings are based on broker consensus averages as at 11 October 2011
2. International companies with a year end other than June have been converted to June using a proportional earnings adjustment

Specific details regarding the comparable companies and the calculation of the earnings multiples are provided at Appendix 2.

General comments regarding the multiples, together with the historical growth, margins and operations of the selected companies, are listed below:

- many of the Australian companies are smaller than Coates Group while the international companies are of a broadly similar size. In general, smaller companies have lower earnings multiples than larger companies

[16] Construction Forecasting Council

- National Hire's operations are significantly smaller than those of Coates Group's and both are exposed to similar industry sectors. National Hire is the preferred supplier to Coates Group for a number of product lines and generates a large portion of its revenue from supplying equipment to the Coates Group. Accordingly, for the purpose of this analysis we have primarily focused on the comparability of listed companies to the activities of the Coates Group

Equipment and machine hire – Australia

- Emeco Holdings Limited (**Emeco**) is a contract hire supplier of earthmoving equipment for the mining industry with 76% of EBIT generated from Australian rental operations which primarily service coal (39%), gold (18%) and iron ore (9%). We see Emeco as the most comparable of the listed companies, however, unlike Coates Group, Emeco is geared toward heavy mining equipment which in the short term may present higher growth relative to some of the Coates Group service areas. Typically larger mining equipment is subject to longer lease terms and higher utilisation levels
- Resource Equipment Limited (**Resource Equipment**) is primarily focused on providing de-watering services on a rental basis to the Australian mining sector. The company's operations are specialised and labour intensive particularly in the design of customised solutions for its customers. Whilst customers are typically signed up to long term rental contracts, the risk profile of providing specialist and labour intensive product offering may contribute to it trading at a discount to that of its peers
- Boom Logistics Limited (**Boom**) a large supplier of crane hire services, access equipment hire and heavy haulage services to both the mining and resources sector (53% of revenue) and the infrastructure sector (26% of revenue). The relatively high fixed cost base, partially due to the provision of wet hire services in addition to dry hire, may contribute to the company generating a lower earnings margin as compared to its peers

Equipment and machine hire - International

- the selected listed international equipment and machine hire companies predominantly operate in North America. These companies face a number of different opportunities and risks compared to companies operating in Australia. We have placed less emphasis on these companies since:
  - the majority of these companies provide leased general and industrial equipment in the United Stated and Canada and are more heavily weighted to the construction and civil sectors in their markets compared to the mining sector
  - these companies operate in different jurisdictions compared to the majority of National Hire Group's businesses and are therefore exposed to a different economic growth trajectory relative to Australia (which is the primary market for National Hire). In particular, the forward EBIT multiples for these companies are significantly higher than the Australian comparables, in part due to the economic recovery expected in North America in 2012 and 2013 which should result in higher levels of investment in capital projects and construction in 2013 and beyond. For example, IHS Global Insight forecast 11% growth per annum from 2012 to 2015 for the Construction and Industrial Equipment sector in the United States (compared to 4.3% average annual revenue growth forecast for the Australian equipment and machine hire industry over the five years to FY17)
  - whilst Fining International Inc (**Finning**) and Toromont Industries Ltd (**Toromont**), both of which are Caterpillar distributors, are largely focused on mining equipment and are therefore levered to similar sectors of the global economy, they are primarily distributors and are therefore subject to a different risk profile.
- Tat Hong Holdings (**Tat Hong**) following its acquisition of its Australian based (and minority ASX listed) subsidiary Tutt Bryant Limited increased the company's overall exposure to the Australian equipment and hire industry. However, overall exposure to the equipment hire market now comprises a minor share of its operating business

Mining services and contractors – Australia

- Whilst industry drivers are comparable to National Hire Group the listed mining services companies face a number of different risk and opportunities compared to the contractors due to their provision of operational mining services

- Leighton is significantly larger and more diversified in its operations. In general, larger companies have higher earnings multiples than smaller companies.

The selection of an appropriate EBIT multiple from the comparable company observations is a matter of judgement. The Australian equipment and machine hire companies have a greater degree of comparability due to their exposure and similarities in economic drivers. We have placed less emphasis on the Australian mining services companies because they are generally weighted to mining operations and have different capital intensity and gearing. We have had less regard to the international comparable companies due to their growth expectations and the underlying economic conditions existing in the countries within which they primarily operate.

Merger and acquisition multiples

The price achieved in mergers or acquisitions of comparable companies provides evidence of an appropriate earnings multiple for National Hire Group. The acquisition price of a company represents the market value of a controlling interest in that company. The difference between the market value of a controlling interest and a minority interest is referred to as the premium for control.

We compiled merger and acquisition multiples for companies comparable to National Hire Group which are summarised in the following table.

Table 16: Earnings multiples – mergers and acquisitions

	Number of comparable transactions over last three years	Enterprise value $ million	Historical EBIT margin	Historical EBIT multiple	Control Premium
Australian machine and equipment hire - Average	5	556	18%	8.4x	40%
International machine and equipment hire - Average	2	93	10%	6.5x	n/a
Mining equipment companies and contractors - Average	5	575	11%	13.1x	76%

Source: Capital IQ, MergerMarket, broker reports, annual reports, Deloitte Corporate Finance Analysis

Notes: n/a: not available, n/m: not meaningful

Specific details regarding the comparable transactions are provided at Appendix 3. General comments regarding the multiples are listed below:

- there are a number of recent transactions observed in the Australian market involving companies operating in industries directly comparable to the operations of National Hire Group, however, the majority of Australian transactions are for companies that are significantly smaller than the National Hire Group (and in particular Coates Group). Smaller transactions have typically occurred at lower earnings multiples than larger transactions
- all of the identified transactions either relate to the acquisition of the majority of the target company's share capital, a major business unit of the target company or relate to a change of control therefore the implied multiples arguably incorporate a premium for control
- for the transactions that took place during and prior to 2010 the general economic factors, interest rates and market sentiment reflected the trading conditions existing during the global financial crisis which may impact the equity values implied by the transactions
- we note the following with regards to the transactions we consider most comparable:

- the transaction involving the acquisition of Coates Hire Limited (October 2007) is the most comparable transaction as the majority of the existing National Hire Group business was acquired as part of this transaction. The forward EBIT multiple implied by this transaction was 10.5 times on a control basis which implies a minority EBIT multiple of 9.2 times using our selected control premium discussed in Section 6.2.5 below. We would expect a lower multiple is applicable in determining the fair market value of National Hire Group in the current environment since:
  - this transaction occurred prior to the global financial crisis at a time when debt markets had more appetite for highly leveraged transactions and were offering financing at substantially lower margins than the current environment. Since access to debt funding and the pricing were more favourable at the time of this acquisition than the current environment, this is likely to have resulted in a higher multiple for the business than in the current environment
  - earnings multiples for the Australian comparable business have declined significantly since this transaction as set out below:

Table 17: Earnings multiples at the time of the Coates Transaction as compared to today

	Forward EBIT multiple as at 11 October 2011	Forward EBIT multiple as at October 2007	Difference (%)
Emeco	7.3x	8.4x	(15)%
Boom Logistics	6.1x	9.6x	(36)%

Source: Deloitte Corporate Finance Analysis, Capital IQ, MergerMarket, broker reports, annual reports

  - the operations and earnings of Coates Hire have grown significantly both organically and by acquisition since the date of the transaction. Whilst there is significant growth anticipated for National Hire Group in 2012 (which is factored in to our selected maintainable earnings), it is likely that the growth expectations at the time of the initial transaction were in excess of the current expectations.
- Tutt Bryant’s operations were comparable to Coates Group’s operations to the extent it maintained an Australian general hire division in addition to its crane hire and equipment sales division. The transaction involved Tat Hong acquiring the remaining 29.2% interest that it did not own of Tutt Bryant. Tutt Bryant’s FY10 earnings were depressed compared to previous year’s results and the disclosed maintainable earnings levels thus potentially implying a higher multiple off a lower earnings base. Based on the selected maintainable earnings of Tutt Bryant the forecast EBIT multiple implied by this transaction was 6.9 times on a control basis
- WesTrac Holdings Pty Limited at the time of its acquisition by SGH (February 2010) also held a controlling interest in National Hire Group, however, the majority of revenues were driven by the company’s heavy equipment distribution business in both Australia and China. Whilst there was a separately negotiated price for WesTrac’s interest in National Hire Group of $2.50 per share this was underwritten by the vendor as a minimum value which implied an EBIT multiple of 8.9 times historical attributable EBIT for National Hire Group at the time of this transaction.

Selected multiple

Based on the analysis of comparable trading and transaction multiples we have selected an EBIT multiple in the range of 8.25 times to 8.75 times maintainable EBIT on a minority basis to apply to National Hire Group. In selecting this multiple we have had primary regard to the following:

- the initial acquisition of Coates in 2007 which implied a forward minority EBIT multiple of 9.2 times. Since this acquisition, the Coates business has increased in scale and divested non-core and lower margin aspects of its business which has improved the stability and the market position of the business. However, the transaction was conducted in an environment of more favourable debt markets and at a time when higher earnings multiples were observed for companies in the sector (and more generally) which would have a downward impact on the multiple. On balance, we consider that National Hire Group (inclusive of Coates) would attract a lower multiple in the current environment than that observed in the initial transaction in 2007
- the average 2012 forecast EBIT multiples of Australian comparable equipment hire companies of 6.3 times (on a minority basis) and in particular Emeco's 2012 forecast EBIT multiple of 7.3 times. Whilst the short term growth prospects for National Hire Group appear to be broadly consistent with the comparable companies, we consider that a higher EBIT multiple would be applicable for National Hire Group due to the relative scale and market position of the Coates business coupled with Coates' relatively higher diversification by customer, equipment type and industry sector
- whilst AllightSykes only represents 10% of attributable EBIT for National Hire Group, there is potential growth from the AllightSykes business as it achieves scale and expands its operations overseas which is not reflected in the near term earnings for the business. Furthermore, equipment manufacturers/distributors generally trade on higher EBIT multiples. For example, Finning and Toromont, which are heavily levered to the mining sector, are trading on an average forecast 2012 EBIT multiple of 9.7 times
- Coates Group's relatively high levels of gearing and its refinancing obligations within the next two to three years. Partially offsetting this risk for the Coates business is that, since this debt package was negotiated in a more favourable financing environment, the interest margins on these facilities are likely to be lower than what could be negotiated in the current environment and this short term benefit is not factored into the EBIT.

6.2.3 Surplus assets

Surplus assets are those assets owned by a company that are surplus to its main operating activities. Such assets should be valued separately from the main operating activities of the company, after adjusting operating results to remove the net-income or expense provided by the surplus assets. We note that there were no surplus assets identified for National Hire. Surplus assets in respect of Coates Group include a net pension asset, legal claims and tax assets and amount to approximately $1.8 million on an attributable basis.

6.2.4 Net debt

National Hire Group's estimated attributable net financial debt as at 30 September 2011 is presented in the table below.

Table 18: Net debt (as at 30 September 2011)

	Total ($ million)	Attributable interest	Attributable ($ million)
National Hire	61.7	100.0%	61.7
Coates Group	1,745.0	46.1%	804.5
Total attributable net debt			**866.2**

Source: National Hire Group management, Deloitte Corporate Finance analysis

We note the following in relation to the attributable net debt position of National Hire Group:

- cash, cash equivalents and borrowings balances are reflective of National Hire's and Coates Group balance sheet positions as at 30 September 2011 (inclusive of the related derivative positions and expected change in net debt until the Takeover Offer expires)
- net debt for National Hire includes deferred consideration payable to the vendors of Sykes Group following the completion of the acquisition in November 2011. The deferred consideration is dependent on the business achieving pre-defined financial performance hurdles over a 12 month period from the completion of the acquisition, however, there is a high likelihood of this consideration being paid
- we have included the notional cash impact of the employee share schemes for both National Hire Group and Coates Group in our assessed net debt position. In particular for National Hire Group we have assumed the 1 million options currently on issue are exercised and have been included in the fully-diluted number of shares on issue. In respect of Coates Group, we have included the current estimated fair market value of the employee share scheme in our net debt position as we understand that this scheme can be cash settled at these values
- we have assumed that the financial statement carrying values are reflective of each items current fair market value.

6.2.5 Premium for control

Earnings multiples derived from market trading do not reflect the market value for control of a company as they are for portfolio holdings. The difference between the market value of a controlling interest and a minority interest is referred to as the premium for control. Australian studies indicate the premiums required to obtain control of companies range between 20% and 40% of the portfolio holding values. For further information on control premium studies refer to Appendix 4.

The owner of a controlling interest has the ability to do many things that the owner of a minority interest does not. These include:

- control the cash flows of the company, such as dividends, capital expenditure and compensation for directors
- determine the strategy and policy of the company
- make acquisitions, or divest operations
- control the composition of the board of directors.

In determining an appropriate premium for control for National Hire Group we have considered the specifics of the National Hire Group including the holding structure of the investment in Coates Group.

As outlined in Section 4.5.2 National Hire Group retains joint control of Coates Group under which certain matters require the approval of National Hire Group and the Carlyle Group. The terms of the Convertible Notes and the Investment Deed effectively give each of National Hire Group and Carlyle Group, for so long as they maintain their existing holdings, veto power over operational matters and capital structuring and effectively equal rights in respect of the financial and operational affairs of the Coates Group. The Investment Deed also outlines provisions regulating how either party may sell their interest in Coates Group including pre-emptive rights, tag along rights and drag along rights. Whilst this agreement contains significant protections for National Hire Group, the joint control position of National Hire Group's investment is arguably less marketable than a full control position and thus would support a control premium at the lower end of the observed control premium range.

The level of premium that should be applied to the value of a minority interest in order to derive the value of a controlling interest is somewhat subjective. Based on these considerations, we believe that a premium for control at the lower end of the observed range of 20% is appropriate for National Hire Group, which implies a forecast EBIT multiple for National Hire Group of approximately 8.8 times to 9.4 times on a controlling basis.

6.2.6 Equity value of National Hire Group

The value of the National Hire Group derived from the capitalisation of maintainable earnings method is summarised below.

Table 19: Summary – capitalisation of maintainable earnings method

	Section		Low value	High value
Attributable maintainable EBIT	6.2.1	($'mil)	160.0	160.0
EBIT multiple	6.2.2	Times	8.25	8.75
Enterprise value		**($'mil)**	**1,320.0**	**1,400.0**
Attributable surplus assets	6.2.3	($'mil)	1.8	1.8
Attributable net debt	6.2.4	($'mil)	(866.2)	(866.2)
Equity value (on a minority basis)		**($'mil)**	**455.6**	**535.5**
Premium for control	6.2.5	%	20%	20%
Equity value (on a control basis)		**($'mil)**	**546.7**	**642.6**
National Hire Group shares outstanding (fully diluted)		(m)	149.5	149.5
Value per share (control basis)		**($)**	**3.66**	**4.30**

Source: Deloitte Corporate Finance analysis

The above values are highly sensitive to the selected maintainable earnings number and selected earnings multiple. This sensitivity arises partially because of the level of gearing within the Coates Group. The equity value (on a control basis) applying higher and lower level of maintainable earnings and earnings multiple is summarised in the table below:

Table 20: Sensitivity analysis – value of a National Hire Group share on a control basis

EBIT multiple	Maintainable earnings ($ million)				
(minority basis)	150	155	160	165	170
8.00 x	2.69	3.01	3.34	3.66	3.98
8.25 x	2.99	3.33	3.66	3.99	4.32
8.50 x	3.30	3.64	3.98	4.32	4.66
8.75 x	3.60	3.95	4.30	4.65	5.00
9.00 x	3.90	4.26	4.62	4.98	5.34

Source: Deloitte Corporate Finance analysis

6.3 Valuation cross check

National Hire Group shares traded in the range of $1.40 to $1.88 in the month leading up to the Announcement Date, a significant discount to our estimated fair market value.

We do not regard recent trading in National Hire shares as a reliable indicator of the fair market value of a National Hire Group share due to:

- the lack of liquidity of the shares. For the 12 months prior to the Takeover Offer, there were 2 million shares traded representing approximately 1.3% of total National Hire Group shares outstanding. Also during the last 12 months, there were 99 days where no shares changed hands indicating that trading in National Hire Group shares were very illiquid
- in part due to the lack of liquidity as well as the composition of the shareholder register in that two shareholders 88.1% of the shares, there is no sell side research coverage of National Hire Group and there is very limited presence of institutional investors on the share register
- the uncertainty in respect of the timing and mechanism for either National Hire Group or its other majority shareholder to exit their investment in Coates Group which may result in some investors attributing a discount to this investment.

As a cross check we have compared the implied price to earnings multiple implied by our estimated fair market value of a National Hire Group share (on a control basis) to that of the identified comparable companies the analysis of which is presented in the table below.

Table 21: Implied price to earnings multiple analysis

	Gearing	FY11	FY12
Implied price to earnings ratio – low[1]	**66%**	**20.7x**	**11.4x**
Implied price to earnings ratio – high[1]	**62%**	**24.3x**	**13.4x**
Comparable companies			
Australian machine and equipment hire - Average	32%	9.7x	7.0x
International equipment and machinery hire - Average	41%	13.6x	10.1x
Mining services - Average	5%	12.1x	8.4x
Comparable transactions			
Australian equipment and machinery hire – Average	38%	17.8x[2]	n/a
International equipment and machinery hire – Average	n/a	n/a	n/a
Mining services - Average	44%	23.4x[2]	n/a

Source: Deloitte Corporate Finance analysis, ThomsonReuters

Notes:

1. Based on average annualised half year profit guidance of $42 million for FY12 and actual FY11 net profit after tax of $26.4 million and represents a multiple based on our control-based value
2. Price to earnings multiples represent current multiples at the transaction dates.

We note the following in relation to the above implied price to earnings multiple analysis:

- the implied National Hire Group price to earnings multiple is impacted by the company's attributable (inclusive of Coates Group) level of gearing. National Hire Group's debt load results in a relatively high level of interest payments that therefore puts downward pressure on earnings and a corresponding increase in the implied multiple. National Hire Group's attributable gearing of 64% (based on the mid-point of our assessed range) compares to the average gearing of the identified Australian machine and equipment hire companies of 31%
- as highlighted in Section 6.2.2, the comparable international machine and equipment hire companies operate in a in markets with considerably different economic conditions which is contributing to depressed earnings in FY11 and forecast to continue in FY12 thus supporting average higher multiples. Due to the differing economic conditions the international comparable companies provide limited comparability
- consistent with the machine and equipment hire companies the mining equipment distributors and mining services companies have a relatively low levels of gearing that support a lower price to earnings multiple. The forecast FY12 earnings growth is the driver of the difference between the FY11 and FY12 multiple which is relatively consistent between National Hire Group, the Australian machine and equipment hire sector and the Australian mining services sector
- the implied price to earnings multiple for National Hire Group will be impacted by the refinancing of the existing debt facilities in 2013 which will likely result in higher margins for the existing facilities of Coates Group. Whilst the terms of the refinancing are uncertain, an increase in debt margins of 50 bps would imply a normalised price to earnings ratio of 12.1 times to 14.2 times for National Hire based on the existing debt levels and utilising the annualised net profit guidance for National Hire for the 6 months ended 31 December 2011.

Given National Hire Group's attributable level of gearing, the price to earnings multiples implied by our assessed value of a National Hire Group share (on a control basis) are not inconsistent with the price to earnings multiples observed for comparable companies.

Appendix 1: Glossary

Reference	Definition
ABARES	Australian Bureau of Agricultural and Resource Economics and Sciences
ACE	Australian Capital Equity Pty Limited
AFSL	Australian Financial Services Licence
AGSM	Australian Graduate School of Management
Announcement Date	20 September 2011
APESB	Accounting Professional and Ethical Standards Board Limited
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited
ATO	Australian Taxation Office
AUD	Australian dollars
AUASB	Auditing and Assurance Standards Board
Bidder’s Statement	Seven National’s bidders statement dated 20 September 2011
Bidders Statement, Supplementary	Seven National’s supplementary bidders statement dated 4 October 2011
bps	Basis points
CAGR	Compound average growth rate
Cat Rental Stores, the	Stores operated by the Coates Group that hire Caterpillar equipment
Coates Group	Coates Group Holdings Pty Limited
Coates Australia	Coates Group in Australia
Convertible notes	The convertible notes subscribed to in January 2008 by National Hire and the Carlyle Group in order to fund the acquisition of Coates
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Elph	Elph Pty Limited
EMRP	Equity Market Risk Premium
FICS	Financial Industry Complaints Service
FSG	Financial Services Guide
FY	Financial year
GDP	Gross Domestic Product
IBISWorld	IBISWorld Pty Ltd
ICAA	Institute of Chartered Accountants in Australia
Independent Directors	Directors of National Hire Group who are not also directors of Seven National
Investment Deed	The deed dated 2 October 2007, entered into by National Hire, the Carlyle Group and Coates prior to the acquisition of Coates in January 2008 that records the parties’ agreement in relation to the operation, control and management of the Coates Group
LNG	Liquefied natural gas
Market Valuation Guidelines	‘Section C4-1, Market Valuation’ of the Consolidation Reference Manual
MEP	Management equity plan

Reference	Definition
MRRT	Mining resource rent tax
National Hire Group	National Hire Group Limited
Non-Associated Shareholders	National Hire Group shareholders other than SGH and its related entities
NPAT	Net profit after tax
NTA	Net tangible assets
Offer Price	$3.00
Offer Price, Incremental	$3.60
PDS	Product Disclosure Statement
RBA	Reserve Bank of Australia
Section 640	Section 640 of the Corporations Act 2001
Senior Facilities	Syndicated debt facilities procured by National Hire and the Carlyle Group in order to fund the acquisition of Coates
Senior Term Loan	Senior term loan entered into as part of the Senior Facilities
Seven National	Seven (National) Pty Limited
SGH	Seven Group Holdings Limited
Subordinated Notes	Subordinated notes entered into as part of the Senior Facilities
SWOT	Strengths, weaknesses, opportunities and threats
Takeover Offer	Seven National's offer to acquire all of the outstanding shares in National Hire Group
Tru-Blu	Tru-Blu Hire Australia Pty Limited
WesTrac	WesTrac Holdings Pty Limited

Appendix 2: Comparable entities

The following table provides analysis of companies with comparable activities to National Hire's operating assets.

Table 22: Earnings multiples – market trading

					EBIT Multiple		EBIT Margin		EBIT Growth		P/E Multiple	
(Millions)	Country	Enterprise Value[1, 3] ($AUD)	Enterprise Value / NTA 2011	Gearing	2011	2012[2]	2011	2012[2]	2011	2012[2]	2011	2012[2]
Machine and equipment hire												
Australian												
Emeco Holdings Limited	Australia	923	2.2x	31%	9.9x	7.3x	19%	22%	36%	14%	12.8x	8.9x
Resource Equipment Limited	Australia	102	1.7x	10%	7.5x	5.7x	46%	26%	33%	25%	7.5x	6.6x
Boom Logistics Limited	Australia	225	1.0x	52%	10.6x	6.1x	6%	10%	74%	16%	19.8x	6.2x
Average			**1.6x**	**31%**	**9.3x**	**6.3x**	**23%**	**19%**	**48%**	**18%**	**13.4x**	**7.3x**
Median			**1.7x**	**31%**	**9.9x**	**6.1x**	**19%**	**22%**	**36%**	**16%**	**12.8x**	**6.6x**
International												
United Rentals Inc	United States	2,175	n/m	70%	14.6x	9.8x	12%	16%	50%	16%	n/m	9.5x
RSC Holdings Inc	United States	2,981	n/m	70%	22.2x	12.2x	10%	15%	82%	35%	n/m	n/m
H&E Equipment Services	United States	590	2.7x	45%	n/m	12.4x	1%	7%	n/m	53%	n/m	n/m
Finning International Inc	Canada	4,449	4.0x	24%	12.8x	9.4x	7%	8%	36%	16%	19.9x	10.6x
Wajax Corp	Canada	612	4.7x	18%	8.8x	7.1x	6%	6%	23%	n/a	8.9x	8.5x
Toromont Industries Ltd	Canada	1,419	4.1x	8%	9.9x	10.0x	8%	10%	(1%)	8%	12.4x	12.1x
Tat Hong Holdings Ltd	Singapore	788	1.5x	44%	13.5x	11.7x	10%	11%	16%	14%	12.9x	10.6x
Average			**3.4x**	**40%**	**13.6x**	**10.4x**	**8%**	**10%**	**34%**	**24%**	**13.5x**	**10.3x**
Median			**4.0x**	**44%**	**13.2x**	**10.0x**	**8%**	**10%**	**30%**	**16%**	**12.6x**	**10.6x**
Average - machine and equipment hire			**2.7x**	**37%**	**12.2x**	**9.2x**	**12%**	**13%**	**39%**	**22%**	**13.5x**	**9.1x**
Median - machine and equipment hire			**2.4x**	**38%**	**9.6x**	**9.6x**	**9%**	**10%**	**36%**	**16%**	**12.8x**	**9.2x**

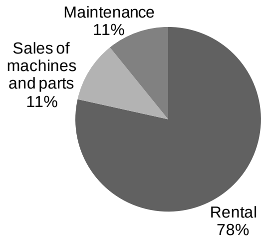
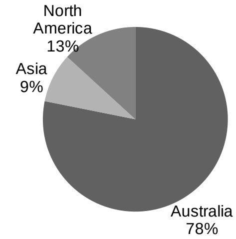
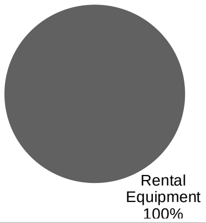
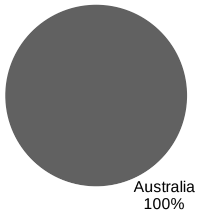
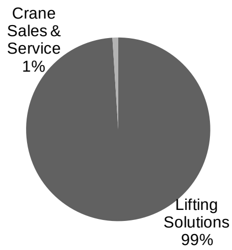
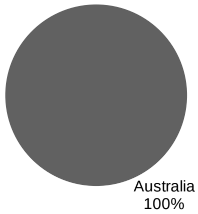
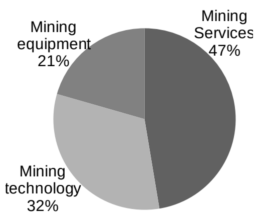
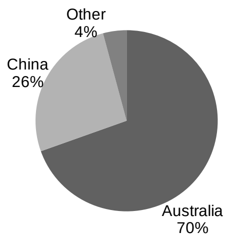
(Millions)	Country	Enterprise Value[1, 3] ($AUD)	Enterprise Value / NTA 2011	Gearing	EBIT Multiple 2011	EBIT Multiple 2012[2]	EBIT Margin 2011	EBIT Margin 2012[2]	EBIT Growth 2011	EBIT Growth 2012[2]	P/E Multiple 2011	P/E Multiple 2012[2]
Mining equipment distributors and mining services companies												
Industrea Limited	Australia	600	4.7x	27%	6.4x	5.4x	26%	26%	19%	10%	7.6x	6.4x
NRW Holdings Limited	Australia	736	2.8x	7%	11.4x	6.9x	9%	10%	65%	18%	16.6x	10.1x
Leighton Holdings Limited	Australia	7,431	3.0x	6%	n/m	20.0x	n/m	2%	n/m	181%	n/m	n/m
Sedgman Limited	Australia	402	3.5x	(3%)	11.6x	7.8x	7%	9%	49%	16%	16.0x	10.6x
Macmahon Limited	Australia	426	1.4x	(9%)	12.0x	5.8x	3%	5%	105%	15%	n/m	10.1x
Average			**3.1x**	**5%**	**10.3x**	**9.2x**	**11%**	**10%**	**60%**	**48%**	**13.4x**	**9.3x**
Median			**3.0x**	**6%**	**11.5x**	**6.9x**	**8%**	**9%**	**57%**	**16%**	**16.0x**	**10.1x**
Overall Average			**2.7x**	**21%**	**11.0x**	**7.5x**	**8%**	**10%**	**36%**	**16%**	**12.8x**	**9.5x**
Overall Median			**2.9x**	**27%**	**11.6x**	**9.2x**	**12%**	**12%**	**45%**	**31%**	**13.4x**	**9.2x**

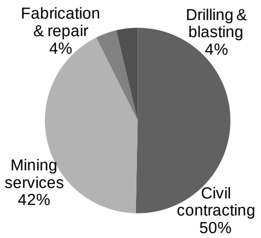
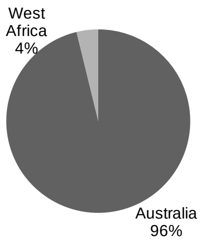
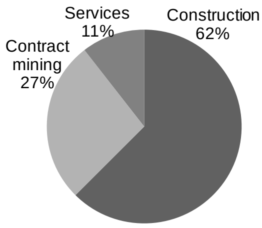
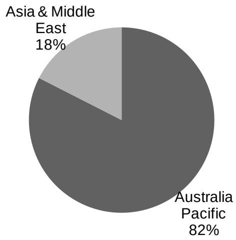
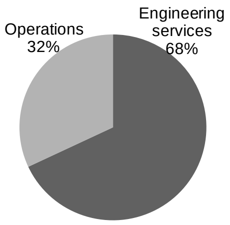
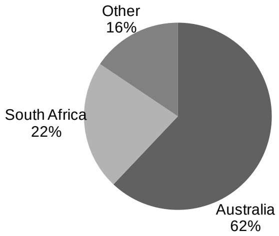
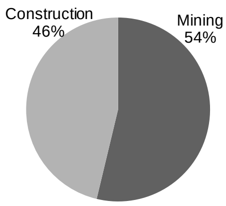
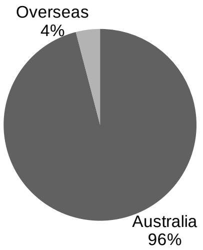
Source: Thomson Reuters, Capital IQ, Deloitte Corporate Finance analysis

Note:
1. n/a = not available, n/m – not meaningful
2. Enterprise values have been calculated based on market capitalisation as at 11 October 2011 and most recently reported net debt figures.
3. The Australian comparable companies (with the exception of Leighton Holdings Limited) have a year end of 30 June 2011.
4. The international comparable companies and Leighton Holdings Limited have a year end of 31 December 2011 (with the exception of Tat Hong Holdings Limited which has a 31 March 2011 year end). The 2011 and 2012 multiples, margins and growth estimates have been recalculated (by apportioning the current and forward broker estimates) as at 30 June 2011 for those companies with year ends other than June.
5. All relevant foreign currencies translated based on the prevailing Australian dollar rate as at 11 October 2011

We provide the descriptions for each of the above comparables in the table below:

Table 23: Comparable company descriptions

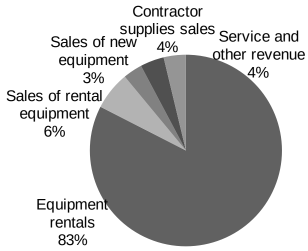
Company	Revenue segmentation (last reported year) – Product	Revenue segmentation (last reported year) – Geographic	Description
Australian equipment and machine hire companies			
Emeco Holdings Limited			Emeco Holdings was founded in 1972 and is headquartered in WA. The company engages in the rental and sale of heavy earthmoving equipment in Australia, Indonesia, Canada and the United States. It also provides maintenance services and procures and supplies used and reconditioned parts. The company rents and sells its products to civil construction and mining industries.
Resource Equipment			Resource Equipment Limited commenced operations in 2003 and has operations in Western Australia, Queensland and New South Wales. Resource Equipment's operations primarily consist of providing core mine dewatering and water management activities for mining companies with a small part of its operations in the remote power, oil and gas and hydro mining sector.
Boom Logistics Limited			Boom Logistics was incorporated in 2000 and is headquartered in QLD. The company engages in the provision of lifting solutions and after sales services, and the sale of mobile cranes and associated spare parts in Australia. Boom Logistics' products and services are used in various applications, including industrial maintenance, commercial construction, resources and petro chemical industry, civil works and heavy lifting.
Australian mining services companies			
Industrea Limited			Industrea is headquartered in QLD and provides mining products and services primarily to Australia and China. The company operates as a diversified mining products and services group, providing integrated mining products and services, including open cut earthmoving and equipment hire, asset management, contracting, and engineering services.

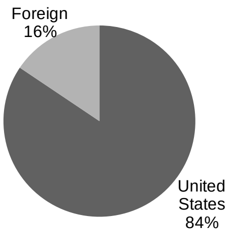
<table>
<tr><th></th><th colspan="2">Revenue segmentation (last reported year)</th><th></th></tr>
<tr><th>Company</th><th>Product</th><th>Geographic</th><th>Description</th></tr>
<tr><td>NRW Holdings Limited</td><td></td><td></td><td>NRW Holdings was founded in 1994 and is based in WA. The company provides various services to the resources sector primarily in Australia and West Africa. The company provides civil contracting services, including rail formation, bulk earthworks, and road and tunnel construction; and mining services.</td></tr>
<tr><td>Leighton Holdings Limited</td><td></td><td></td><td>Leighton Holdings was founded in 1949 and is headquartered in NSW. The company provides a range of project development, contracting services and skills to public and private sector clients. The company's activities include building, civil engineering construction, contract mining, telecommunications, environmental services, property development and project management.</td></tr>
<tr><td>Sedgman Limited</td><td></td><td></td><td>Sedgman is headquartered in QLD. The company provides engineering, project delivery and operations services to the resources industry in Australia, South Africa, Botswana, Mozambique, Mongolia, Columbia, China and Chile. Specifically, it engages in the design, construction, operation and commissioning of coal handling and preparation plants, minerals processing plants and related equipment.</td></tr>
<tr><td>Macmahon Holdings Limited</td><td></td><td></td><td>MacMahon Holdings was founded in 1963 and is headquartered in WA. The company undertakes key infrastructure projects, including roads, bridges, railroads, ports and dams. Additionally, its mining business provides services for open cut and underground operations, managing mines for customers in Australia, New Zealand and Malaysia.</td></tr>
</table>

Company	Revenue segmentation (last reported year) Product	Geographic	Description

International machine and equipment hire companies

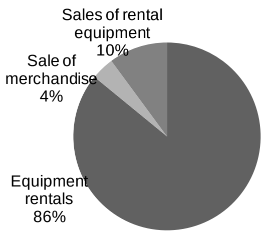
United rentals Inc

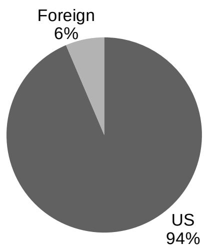




United Rentals was founded in 1997 and is headquartered in Connecticut, United States. The company operates as a rental equipment company in the United States and Canada. It offers an extensive range of rental equipment, including general construction and industrial equipment, materials handling equipment, aerial work platforms and general tools and lighting equipment.

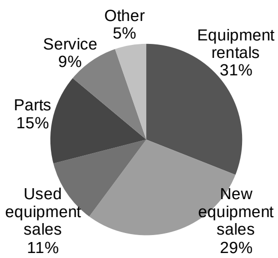
RSC Holdings Inc

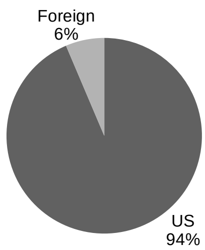




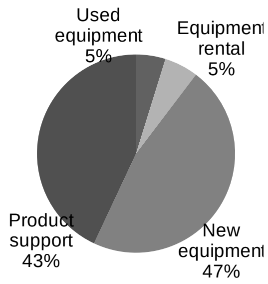
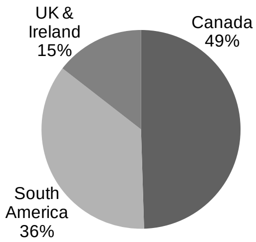
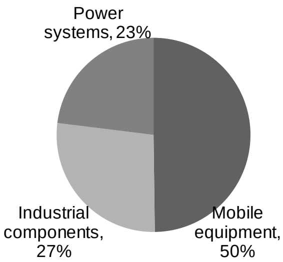
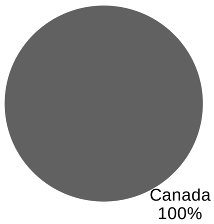
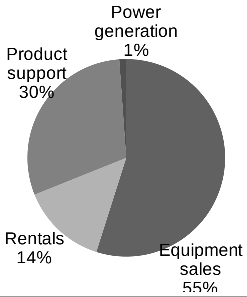
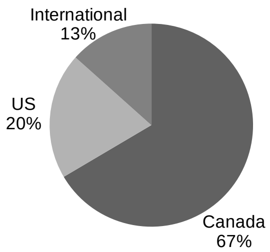
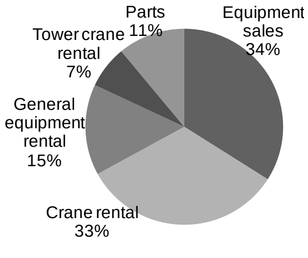
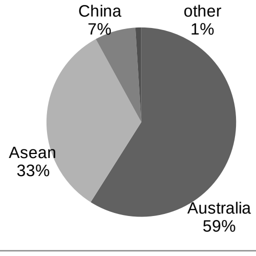
RSC Holdings is headquartered in Scottsdale, Arizona. The company engages in the rental of construction and industrial equipment in North America. It provides products primarily to industrial or non-construction related companies and non-residential construction companies.

H&E Equipment Services Inc





H&E Equipment Services was founded in 1961 and is headquartered in Louisiana, United States. The company provides heavy construction and industrial equipment in the United States. It rents, sells and provides parts and service support in four categories of specialist equipment including hi-lift or aerial platform equipment, cranes, earthmoving equipment and industrial lift trucks.

	Revenue segmentation (last reported year)		
Company	**Product**	**Geographic**	**Description**
Finning International Inc			Finning was founded in 1933 and is headquartered in Vancouver, Canada. Finning engages in the sales, service and rental of Caterpillar equipment, engines and complementary equipment to Canada, the United Kingdom and South America. The company primarily serves the mining, construction and power generation industries.
Wajax Corp			Wajax Income Fund was founded in 1869 and is headquartered in Mississauga, Canada. The company operates as an open-ended limited purpose trust. It engages in distribution operations through the sale and after-sales parts and service support of mobile equipment, power systems and industrial components. The company serves the mining, oil and gas, forestry, construction, manufacturing, industrial processing, transportation and utilities sectors.
Toromont Industries Ltd			Toromont was founded in 1961 and is based in Concord, Canada. The company provides capital equipment and product support services in Canada and the US. It sells, rents and services construction equipment and industrial engines under the Caterpillar brand. Included in Toromont's dealership territory are gold, nickel, copper, zinc, salt and diamond mines which combine in making it the largest North American dealer of underground Caterpillar equipment. In addition, Toromont designs, engineers and installs natural gas compression units and other industrial equipment.
Tat Hong Holdings Inc			Tat Hong Holdings Ltd is headquartered in Singapore. Tat Hong operates as a crane rental company in Malaysia, Hong Kong, Thailand, Indonesia, China, Japan, Vietnam and Australia. It engages in the sale and rental of cranes, tower cranes, heavy equipment, general equipment and spare parts.

Appendix 3: Comparable transactions

Below are the details of comparable market transactions, listed by target company:

Table 24: Mergers and acquisitions – trading multiples

						EV/EBIT				Control Premium		
Date	Target company	Acquired by	Target Gearing	Percentage acquired	Enterprise Value (A$m)	Historical	Current	EBIT Margin Historical	PE Multiple Historical	One day prior[3]	One week prior[3]	One month prior[3]
Equipment and machinery hire and manufacture												
Australia												
Jul-10	Pilbara Hire group	Austin Engineering Limited	n/a	100%	13	3.4x	n/a	18%	n/a	n/a	n/a	n/a
Jul-10	Tutt Bryant Group Limited	Tat Hong International Pte Limited	23%	30%	173	10.9x	5.6x	7%	15.1x	46%	53%	40%
Apr-09	Resource Equipment Rentals	Repcol Limited	n/a	100%	20	4.9x	3.2x	26%	n/a	n/a	n/a	n/a
Jan-08	National Hire Group Limited	WesTrac Pty Limited	54%	12%	398	9.1x	n/a	15%	20.6x	n/a	n/a	n/a
Oct-07	Coates Hire Limited	Coates Group	n/a	100%	2,178	13.7x	10.5x	22%	n/a	n/a	n/a	n/a
Average			**38%**		**556**	**8.4x**	**6.4x**	**18%**	**17.8x**	**46%**	**53%**	**40%**
Median			**38%**		**173**	**9.1x**	**5.6x**	**18%**	**17.8x**	**46%**	**53%**	**40%**
International												
Jun-10	Weldex Holdings Limited	Dunedin Capital Partners Limited	n/a	100%	171	9.6x	n/a	10%	n/a	n/a	n/a	n/a
May-10	1st Access Rentals Limited	Kimberly Access Limited	n/a	100%	15	3.4x	n/a	n/a	n/a	n/a	n/a	n/a
Overall average - equipment and machinery hire companies			**n/a**		**424**	**7.9x**	**6.4x**	**16%**	**17.8x**	**46%**	**53%**	**40%**
Overall median - equipment and machinery hire companies			**n/a**		**171**	**9.1x**	**5.6x**	**17%**	**17.8x**	**46%**	**53%**	**40%**

Date	Target company	Acquired by	Target Gearing	Percentage acquired	Enterprise Value (A$m)	EV/EBIT Historical	EV/EBIT Current	EBIT Margin Historical	PE Multiple Historical	Control Premium One day prior[3]	Control Premium One week prior[3]	Control Premium One month prior[3]
Mining services												
Dec-10	Easternwell Group	Transfield Services Limited	66%	100%	575	21.3x	n/a	20%	n/a	n/a	n/a	n/a
Nov-10	Belle Banne (Victoria) Pty Limited	Fenner Dunlop Conveyor Services Pty Limited	n/a	50%	128	6.7x	n/a	n/a	n/a	n/a	n/a	n/a
Oct-10	Sykes Group Pty Limited	Allight Holdings Pty Limited	n/a	100%	55	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Feb-10	WesTrac Holdings Pty Limited	Seven Network Limited	16%	100%	2,001	10.4x	n/a	8%	n/a	n/a	n/a	n/a
Aug-09	Brandrill Limited	Ausdrill Limited	49%	100%	117	14.2x	n/a	4%	n/a	44%	58%	76%
Average			**44%**		**575**	**13.1x**	**n/a**	**11%**	**n/a**	**44%**	**58%**	**76%**
Median			**49%**		**128**	**12.3x**	**n/a**	**8%**	**n/a**	**44%**	**58%**	**76%**

Source: Deloitte Corporate Finance analysis, Capital IQ, MergerMarket, broker reports, company annual reports

Notes: n/a: not available n/m: non- meaningful

1. Enterprise values have been calculated based on market capitalisation and most recently reported net debt figures as at the transaction date.
2. All relevant foreign currencies translated based on the prevailing Australian dollar rate as at the transaction date
3. Control premia for one day, one week and one month are calculated as the premium of the Offer Price over the share price for the periods prior to 20 September 2011 (Announcement Date). The one week and one month share prices used in the calculation are volume weighted average prices (VWAPs) over those periods.

The following table provides comparable market transaction descriptions:

Table 25: Comparable market transaction descriptions

Target / Acquirer	Description
Equipment and machine hire companies	
Australia	
Tru-Blu / Coates Hire Operations Pty Limited	In September 2011, Coates Hire acquired Tru-Blu Hire Australia Pty Limited, an equipment hire business based in Perth, WA for an undisclosed sum. Tru-Blu was founded in 1994 and owns approximately 22 equipment rental depots operating out of Western Australia, South Australia and the Northern Territory.
Tutt Bryant Group Limited / Tat Hong International Pte Ltd	In July 2010, Tat Hong International Pte Ltd (a subsidiary of Tat Hong Holdings Limited), a Singapore based provider of machinery rental and distribution services including cranes, construction and industrial equipment, agreed to acquire all the issued shares in Tutt Bryant Group Limited which it did not already own. Tutt Bryant Group Limited was an Australian listed company providing sales of construction equipment, the hire of cranes, specialised heavy lift and shift, general equipment hire and other related services.
Pilbara Hire / Austin Engineering Limited	In July 2010, Austin Engineering Limited, the ASX listed company acquired Pilbara Hire Group, a small Western Australian equipment hire group catering to mining companies. The Pilbara Hire Group was established in 2006 and provides fixed and mobile plant maintenance services, equipment hire services and labour supply services to mining companies in Western Australia.
Resource Equipment Rentals Pty Ltd / Repcol Limited	In April 2009, Repcol Limited, an Australian listed company providing debt collection services on an agency basis, signed an agreement to acquire the issued capital of Resource Equipment Rentals Pty Ltd, an Australian company engaged in the rental business of pumps, mine dewatering, pipeline testing and mobile power generation equipment. The acquisition resulted in the change in nature and scale of Repcol Limited and subsequent company name change to RER Group Limited and the divestment of the debt collection business.
National Hire / Coates Group (National Hire & The Carlyle Group)	In January 2008, the Coates Group, an Australian consortium formed by National Hire and The Carlyle Group finalised the acquisition of Coates Hire Limited and concurrently acquired the rental services business of National Hire Limited, an Australian based equipment hire business. National Hire rental services had operations in the states of QLD, VIC, SA and NT and also traded as 'National Hire The Cat Rental Store' in NSW, ACT and WA. The company provided the hire of general equipment, access equipment, temporary site accommodation and toilets to the construction, industrial, infrastructure, civil and engineering markets.
Coates Hire Limited / Coates Group (National Hire & The Carlyle Group)	In October 2007, the Coates Group, an Australian consortium formed by National Hire and The Carlyle Group, acquired all the issued shares in Coates Hire Limited and merged it with the rental services business acquired concurrently from National Hire. Coates Hire had over 190 branches across Australia and serviced sectors including engineering, civil construction, building construction and maintenance, mining and resources, manufacturing, Government, industrial shutdowns and events. The company also had operations overseas including provision of specialised equipment to the offshore oil and gas industry in the UK and Coates Indonesia providing equipment hire and to mining resource and offshore sectors.
International	
Weldex Holdings Limited / Fenner Dunlop Conveyor Services Pty Ltd	In June 2010, Dunedin Capital Partners Limited acquired Weldex Holdings Limited, a UK based crawler crane hire company for a consideration of $94 million. Weldex Holdings Limited is the UK's largest crawler crane hire company which supplies lifting equipment including wheeled cranes, forklifts, lorry loaders and trailers.
1st Access rentals Pty Limited/ Kimberly Access Limited	In May 2010, Kimberly Access Limited acquired 1st Access Rentals, a United Kingdom equipment hire business for $15 million. 1st Access Rentals has a fleet of over 600 machines including scissor lifts, boom lifts, mini lifts and telehandlers. In addition to its hire business 1st Access Rentals also sells equipment and provides maintenance services in the UK.

Target / Acquirer	Description
Mining services companies	
Easternwell Group / Transfield Services Limited	In December 2010, Transfield Services Limited, the ASX listed infrastructure company, acquired Easternwell group a mining equipment and services company for $575 million. Easternwell provides well servicing, energy drilling, dewatering, drilling and utilities services to miners primarily in Queensland. Transfield's rationale for the transaction was to broaden its high margin technical mining capabilities, deepen its exposure to the high growth mining industry and strengthen its position in oil and gas operations in Australia.
Belle Banne (Victoria) Pty Ltd / Fenner Dunlop Conveyor Services Pty Ltd	In November 2010, Fenner Plc, a company listed in the United Kingdom engaged in the production and distribution of conveyor belts and precision polymer products, agreed to acquire Belle Banee (Victoria) Pty Ltd, an Australian based company providing conveyor maintenance services and products to the mining and materials handling industries. The deal was aimed at broadening the services of Fenner Plc's subsidiary, Fenner Dunlop Conveyor Services Pty Ltd, a company offering conveyor products and conveyor engineering services to the mining and industrial sectors across Australasia.
Sykes Group Limited / Allight Holdings Pty Limited	On 8 October 2010, NHR announced that its subsidiary, Allight Holdings Pty Limited had entered into an agreement to acquire all the issued shares in Pump Rentals Pty Limited (wholly owned by Sykes Group Pty Ltd), one of the largest manufacturers and distributors of auto prime pumps. Pump Rentals is an Australian company which caters for the mining, construction and civil engineering services and operates.
WesTrac Holdings Pty Ltd / Seven Group Holdings Limited	In February 2010 Seven Network Limited, together with Australian Capital Equity Pty Limited, announced a proposal under which Seven Network Limited and WesTrac Holdings Pty Ltd will merge their investments and businesses under a scrip for scrip exchange. Upon completion Seven Network and WesTrac Holdings became wholly owned subsidiaries of Seven Group Holdings Limited. WesTrac Holdings held 100% of the WesTrac group and 66.2% of National Hire Group Limited which in turn held a 47.1% economic interest in the Coates Group. WesTrac was the sole authorised dealer for Caterpillar Inc in WA, NSW and the ACT in Australia and in eight provinces and municipalities in North Eastern China, supplying new and used caterpillar machinery and providing servicing and support, predominantly to the mining and construction sectors.
Brandrill Limited / Ausdrill Limited	In August 2009, Ausdrill Limited, the Australian listed company engaged in the provision of production drilling, blasting, exploration drilling and other mining services announced the acquisition of Brandrill Limited, an Australian company engaged in the provision of drilling and blasting services, under a scrip for scrip exchange. The combined group represents a more integrated mining services company and with a greater financial capacity to fund future growth.

Appendix 4: Control Premium Studies

Deloitte study

We conducted a study of premiums paid in Australian transactions completed between 1 January 2000 and 30 June 2011. This study was conducted by Deloitte staff for internal research purposes. Our merger and acquisition data was sourced from Bloomberg and Reuters and yielded 468 transactions that were completed during the period under review[17].

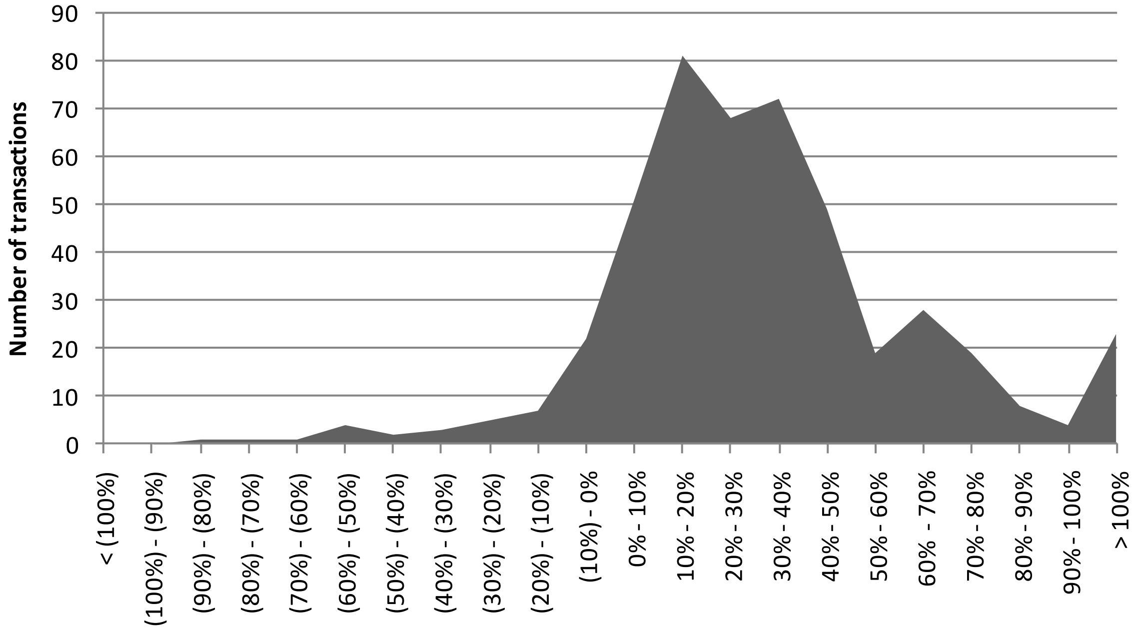
Our data set consisted of transactions where an acquiring company increased its shareholding in a target company from a minority interest to a majority stake or acquired a majority stake in the target company.

We assessed the premiums by comparing the offer price to the closing trading price of the target company one month prior to the date of the announcement of the offer. Where the consideration included shares in the acquiring company, we used the closing share price of the acquiring company on the day prior to the date of the offer.

Summary of findings

As the following figure shows, premiums paid in Australian transactions between 1 January 2000 and 30 June 2011 are widely distributed with a long ‘tail’ of transactions with high premiums.

Figure 11: Distribution of data



Source: Deloitte analysis

[17] Excluding transactions where inadequate data was available.

The following table details our findings.

Table 26: Premium analysis - findings

	Control premium
Average	33%
Median	28%
Upper quartile	45%
Lower quartile	12%

Source: Deloitte analysis

Notwithstanding the relatively wide dispersion of control premiums observed in our study we consider the control premium range of 20% to 40% to be representative of general market practice for the following reasons.

Many of the observed control premiums below 20% are likely to have been instances where the market has either been provided with information or anticipated a takeover offer in advance of the offer being announced. Accordingly, the pre-bid share trading price may already reflect some price appreciation in advance of a bid being received, which creates a downward bias on some of the observed control premiums in our study.

Many of the observed control premiums above 40% are likely to have been influenced by the following factors which create an upward bias on some of the observed control premiums in our study:

- some acquirers are prepared to pay above fair market value to realise ‘special purchaser’ value which is only available to a very few buyers. Such ‘special purchaser’ value would include the ability to access very high levels of synergistic benefits in the form of cost and revenue synergies or the ability to gain a significant strategic benefit
- abnormally high control premiums are often paid in contested takeovers where there are multiple bidders for a target company. In such cases, bidders may be prepared to pay away a greater proportion of their synergy benefits from a transaction than in a non-contested situation
- some of the observations of very high premiums are for relatively small listed companies where there is typically less trading liquidity in their shares and they are not closely followed by major broking analysts. In such situations, the traded price is more likely to trade at a deeper discount to fair market value on a control basis.

Accordingly, the observed control premiums to share trading prices for such stocks will tend to be higher.

Other studies

In addition to the study above, we have also had regard to the following:

- a study conducted by S.Rossi and P.Volpin of London Business School dated September 2003, ‘Cross Country Determinants of Mergers and Acquisitions’, on acquisitions of a control block of shares for listed companies in Australia announced and completed from 1990 to 2002. This study included 212 transactions over this period and indicated a mean control premium of 29.5% using the bid price of the target four weeks prior to the announcement
- ‘Valuation of Businesses, Shares and Equity’ (4th edition, 2003) by W.Lonergan states at pages 55-56 that: *“Experience indicates that the minimum premium that has to be paid to mount a successful takeover bid was generally in the order of at least 25 to 40 per cent above the market price prior to the announcement of an offer in the 1980s and early 1990s. Since then takeover premiums appear to have fallen slightly.”*
- a study conducted by P.Brown and R.da Silva dated 1997, ‘Takeovers: Who wins?’, JASSA: The Journal of the Securities Institute of Australia, v4(Summer):2-5. The study found that the average control premium paid in Australian takeovers was 29.7% between the period January 1974 and June 1985. For the ten year period to November 1995, the study found the average control premium declined to 19.7%.

Appendix 5: Sources of information

In preparing this report we have had access to the following principal sources of information:

- bidder's Statement, target's statement and other transaction documents
- annual reports for National Hire Group and Coates Group for the years ending 30 June 2009, 30 June 2010 and 30 June 2011
- internal business plans for National Hire Group and Coates Group
- annual reports for comparable companies
- company websites for National Hire Group, Coates Group and comparable companies
- publicly available information on comparable companies and market transactions published by ASIC, Thompson research, Capital IQ, ThomsonReuters, Deloitte Corporate Finance analysis, Financial markets, and Mergermarket
- IBISWorld company and industry reports
- websites and reports of Australian government departments and bureaus including the ABS and ABARE,
- industry group websites and reports on the equipment hire and construction industries including the Construction Forecasting Council
- other publicly available information, media releases and brokers reports on National Hire Group, comparable companies and relevant industry/sectors.

In addition, we have had discussions and correspondence with certain directors and executives of National Hire Group and Coates Group in relation to the above information and to current operations and prospects.

Appendix 6: Qualifications, declarations and consents

The report has been prepared at the request of the Independent Directors of National Hire Group and is to be included in the Target's Statement to be given to shareholders for approval of the Takeover Offer in accordance with Section 640. Accordingly, it has been prepared only for the benefit of the Independent Directors and those persons entitled to receive the Target's Statement in their assessment of the Takeover Offer outlined in the report and should not be used for any other purpose. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Takeover Offer. This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the APESB.

The report represents solely the expression by Deloitte Corporate Finance of its opinion as to whether the Takeover Offer is fair and reasonable in relation to Section 640. Deloitte Corporate Finance consents to this report being included in the Target's Statement.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by National Hire Group and its officers, employees, agents or advisors which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to National Hire Group management for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by National Hire Group and its officers, employees, agents or advisors, National Hire Group has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which National Hire may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte's reliance on the information provided by National Hire Group and its officers, employees, agents or advisors or the failure by National Hire Group and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Takeover Offer.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte's consideration of this information consisted of enquiries of National Hire Group personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the AUASB or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are reasonable grounds to believe that the prospective financial information for National Hire Group included in this report has been prepared on a reasonable basis. In relation to the prospective financial information, actual results may be different from the prospective financial information of National Hire Group referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were Mark Pittorino, Director, B.Comm., MAppFin, ACA, Tapan Parekh, Director, B.Comm, MComm, ACA, F.Fin, David Pearson, Associate Director, B.Comm., CBV, CFA, CA and Matthew Walden, Associate Director, B.Bus., G.Dip.AppFin (Finsia), CA, F.Fin. Each have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Over the past two years, Deloitte Corporate Finance and other member firms in Australia have provided other services to related entities of the National Hire Group. Services provided to Seven Group Holdings include the preparation of the March 2010 Independent Expert's Report in relation to the merger of Seven Network Limited and WesTrac Holdings Pty Limited to form Seven Group Holdings Limited for a fee of $1.5 million. Services provided to Coates Group include consulting, risk and forensics services to a total value of approximately $90,000. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any partner or executive or employee thereof has any financial interest in the outcome of the proposed transaction which could be considered to affect our ability to render an unbiased opinion in this report. Deloitte Corporate Finance will receive a fee of $225,000 exclusive of GST in relation to the preparation of this report. This fee is based upon time spent at our normal hourly rates and is not contingent upon the success or otherwise of the Takeover Offer.

ANNEXURE B: NATIONAL HIRE ANNOUNCEMENTS TO ASX SINCE 30 SEPTEMBER 2010

Date of announcements	Headline
14/10/2011	Annual Report to shareholders
07/10/2011	Coates Hire completes Tru Blu acquisition
06/10/2011	SVW: Completion of dispatch of bidder`s statements
04/10/2011	SVW: Supplementary and replacement bidder`s statements
04/10/2011	SVW Notice that defeating condition to takeover bid freed
27/09/2011	Takeover Offer Update
23/09/2011	Letter to Shareholder on Takeover Offer
21/09/2011	Notice of Change of Interests of Substantial Shareholder SVW
20/09/2011	CashTakeover Offer by Seven Group
20/09/2011	SVW: National Hire Group Limited - Bidder`s Statement
20/09/2011	SVW: Seven announces cash offer for National Hire Group
19/09/2011	Trading Halt
09/09/2011	Trading Update
24/08/2011	Preliminary Final Report
15/08/2011	Trading Update
16/02/2011	First Half Performance
08/02/2011	Trading Update
20/12/2010	Share Trading Policy
07/12/2010	Section 708A notice and Appendix 3B
06/12/2010	Trading Update
29/11/2010	Company Secretary Appointment/Resignation
25/11/2010	Results of Meeting

Date of announcements	Headline
23/11/2010	Sykes Acquisition Completion
18/10/2010	Company Secretary Appointment/Resignation
14/10/2010	Notice of Annual General Meeting/Proxy Form
08/10/2010	Acquisition of Sykes Group
30/09/2010	Annual Report to shareholders

www.nationalhire.com.au