

Market Release
25 August 2010

EMECO DELIVERS OPERATING NET PROFIT OF \$41.1M IN LINE WITH GUIDANCE AND CONFIRMS POSITIVE OUTLOOK FOR FY11

KEY POINTS

- ◆ **Full year operating NPAT of \$41.1 million - in line with guidance**
- ◆ **Previously announced impairment and restructuring charges of \$90.4 million post tax (\$74.9 million non-cash)**
- ◆ **Strong cash flow has reduced debt to \$300.2 million at 30 June 2010, providing balance sheet flexibility**
- ◆ **Resumption of dividend - 2.0 cents per share declared, fully franked**
- ◆ **Decisive action taken on underperforming businesses and geographies to improve shareholder returns**
- ◆ **Step change in activity during 2H10 across all core markets (86% utilisation at 30 June 2010)**
- ◆ **Strategic focus on providing larger equipment to customers in core mining markets**
- ◆ **Positive outlook in Emeco's core markets for FY11**

OVERVIEW

Emeco Holdings Limited (ASX: EHL) today reported operating net profit post tax (NPAT) of \$41.1 million for FY10. Statutory NPAT for the full year was a loss of \$(49.3) million reflecting previously announced impairment and one-off restructuring charges associated with business closure and restructuring activities in Europe, USA and Australia. The result reflected strengthening momentum in Emeco's key markets with operating NPAT increasing from \$13.6 million in 1H10 to \$27.5 million in 2H10.

Chief Executive Officer, Keith Gordon said "The operating environment was challenging in FY10 for mining services companies as the sector recovered from a severe downturn. However, we have been encouraged by the increasing activity levels across 2H10 as our customers ramped up production and resumed development activities."

"We also completed a strategic review of the business portfolio over the course of the second half that will result in Emeco focusing on customers in our core mining markets of Australia, Indonesia and Canada, with particular emphasis on exposure to coal, iron ore, gold and oil sands."

"As part of the strategic review we announced last month the decision to exit the USA, Europe and Victorian rental businesses and to downsize and realign the Australian Sales and Parts businesses. By taking action to free up capital from these underperforming businesses and refocus on our core rental markets, the Group is well placed to capture profitable growth opportunities, and deliver improved shareholder returns."



FINANCIAL PERFORMANCE

A\$ millions	Operating (pre significant items)			Statutory (post significant items)		
	FY09	FY10	YOY %	FY09	FY10	YOY %
Revenue	528.2	444.4	(15.9)	528.2	461.7	(12.6)
EBITDA	210.9	190.4	(9.7)	185.3	139.0	(25.0)
EBIT	105.9	83.6	(21.1)	67.7	(6.1)	(109.0)
NPAT	57.7	41.1	(28.8)	13.3	(49.3)	(470.7)

Group operating revenue was \$444.4 million in FY10, 15.9% lower than FY09, primarily due to lower average rental fleet utilisation in 1H10 and a significant decline in equipment sales revenue in Australia. Despite the 15.9% decline in revenue, operating EBITDA was down only 9.7% due to the variable nature of direct maintenance costs and increased contribution from higher margin rental income.

Operating EBIT was down 21.1% to \$83.6 million. The reduction in EBIT relative to EBITDA is due to the fixed cost component of depreciation in a lower utilisation environment. As utilisation improves in the future, EBIT margins are expected to return to more normal levels due to this fixed cost leverage. There were continued improvements in regards to fleet utilisation in the second half, with an 86% utilisation rate as at 30 June 2010.

Notwithstanding an operating NPAT of \$41.1 million, as previously announced, Emeco incurred significant one-off impairment and restructuring charges totalling \$90.4 million post tax (\$74.9 million being non-cash), resulting in a statutory NPAT of \$(49.3) million for FY10. These charges comprise:

- ♦ Australian impairment and restructuring charges related to the divestment and restructuring of underperforming Australian businesses (Victorian Rental, Sales and Parts) totalling \$44.2 million post tax for the full year (\$42.4 million non-cash) of which \$41.0 million was recognised in 2H10;
- ♦ Europe and USA impairment and closure costs (including planned disposal of USA parts) of \$35.2 million post tax (\$21.5 million non-cash) for the full year which included \$29.7 million in 2H10;
- ♦ Impairment of small civil equipment in Canada of \$5.6 million post tax (non-cash) in 1H10; and
- ♦ Non-cash accounting transfer of \$5.4 million from the Foreign Currency Translation Equity Reserve (FCTR) to Retained Earnings (equity) relating to exit of Emeco's investment in the USA and Europe businesses.

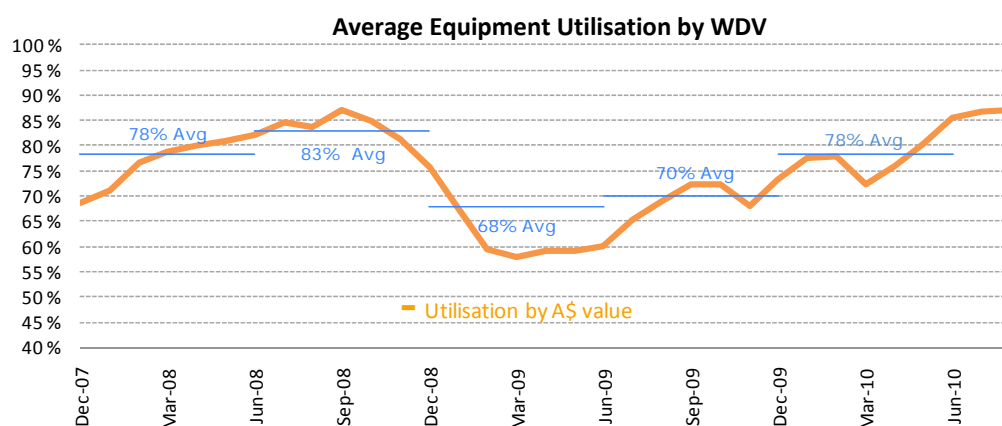
The impairment and restructuring charges are summarised as follows:

A\$ millions	1H10		2H10			Tax effect	TOTAL \$M (NPAT)
	Tangible asset impairment	Tangible asset impairment	Goodwill impairment	Closure & restructure costs	FCTR		
Operating NPAT							41.1
<i>Continuing Operations:</i>							
Australia	(4.5)	(1.1)	(20.1)	(1.0)	-	2.0	(24.7)
Canada	(7.8)	-	-	-	-	2.2	(5.6)
<i>Discontinued Operations:</i>							
Australia	-	(3.1)	(16.9)	(0.7)	-	1.2	(19.5)
United States	(5.5)	-	-	(23.1)	(4.2)	-	(32.8)
Europe	-	-	-	(6.6)	(1.2)	-	(7.8)
Statutory NPAT	(17.8)	(4.2)	(37.0)	(31.4)	(5.4)	5.4	(49.3)

FY10 BUSINESS PERFORMANCE

Key features of the FY10 business performance were:

- ◆ Building momentum in activity across FY10 with strong utilisation at year end
- ◆ Sustained thermal coal activity in NSW and Indonesia underpinned consistent utilisation throughout FY10
- ◆ Recovery in coking coal, iron ore and oil sands activity driving utilisation recovery in QLD, WA & Canada
- ◆ Fleet repositioning strategy in Canada which is key to achieving acceptable returns is well progressed
- ◆ Market activity in the Australian Sales and Parts business remained subdued, supporting the downsizing strategy



The **Australian Rental** business generated \$67.5 million EBIT, down 20% pcp and representing approximately 81% of the group's EBIT. Activity across the Australian mining industry rebounded over the course of FY10, however the recovery to normal levels of utilisation did not occur until the last quarter and hence full year earnings did not recover to FY09 levels. Thermal coal activity in the Hunter Valley region of NSW remained at historically high levels, underpinning consistent utilisation at around 90% over FY10. Notwithstanding a slow recovery in utilisation in Western Australia and Queensland in 1H10, activity increased significantly in 2H10 as confidence returned, with those businesses ending the period with utilisation levels at 85% and 90% respectively.

The Australian Sales and Parts businesses delivered significantly lower contributions than the prior year due to the recovery in sales volumes lagging the recovery in rental activity.

The **Indonesian Rental** business achieved an EBIT contribution of \$13.7 million, down 26.3% pcp. The business had relatively consistent fleet utilisation of 76% across the period; however maximum operating hours were not achieved on this deployed equipment in FY10 due to customer productivity issues related to weather. The lower EBIT contribution in FY10 compared to FY09 was also influenced by a bad debt expense of \$1.9 million in FY10 and the adverse effect of a stronger AUD on translated earnings. Underlying thermal coal production in this market remained robust throughout the global financial crisis.

The **Canadian Rental** business was significantly impacted by the global economic downturn due to the collapse in the oil price and Emeco's significant exposure to construction related activity in the oil sands sector. Despite unseasonal weather events in the second half, profitability gained momentum towards the end of the financial year with utilisation finishing at 84%. This resulted in a full year operating EBIT of \$2.7 million; down 71.6% pcp.

Significant progress was made in FY10 to reposition the Canadian fleet toward a full complement of mining equipment to increase exposure to mining activity in the oil sands and pursue diversification opportunities in bulk commodities across the broader region. This fleet repositioning was executed through the acquisition of eleven 190 tonne trucks, the transfer of approximately \$26 million in mining fleet from the USA business, and the disposal of 137 units of small civil equipment.

CASH FLOW & BALANCE SHEET

During FY10, balance sheet flexibility was attained through improving operating cash flow, release of working capital, liberating underperforming capital through asset disposals, and maintaining a disciplined approach to capex. The Group generated free cash flow before dividends of \$37.6 million which included working capital release of \$5.6 million and rental fleet disposals of \$47.5 million.

Chief Financial Officer, Stephen Gobby said “Notwithstanding our focus on cash flow and balance sheet management, we continued to make strategic investments in high quality assets with a view to long-term growth. We took advantage of our balance sheet position and invested \$84.4 million in three fleets of 190 and 240 tonne trucks to meet emerging demand in Australia and Canada.”

“The Group’s net debt reduced by \$31 million to \$300 million over the twelve months to 30 June 2010. This decrease was comprised of net debt repayment of \$26 million and a \$5 million reduction due to the translation effect of the AUD appreciation. The Group’s gearing is 1.60 times (Net Debt : EBITDA) at 30 June 2010 and within our target range of 1.5 – 2.0 times. With the credit markets having improved since 2009, we expect to refinance existing debt facilities to meet our medium term capital needs during FY11.” Mr Gobby said.

“The combination of a sound balance sheet, improving operating cash flows, and the capital release arising from our strategic review provides us with balance sheet flexibility to pursue investment and/or capital management opportunities. However, we will be objective about the respective capital allocation opportunities with any decision being firmly focused on achieving the best return for our shareholders at the time.”

Due to the impairment and restructuring charges in FY10 net tangible assets (NTA) per share has reduced to \$0.70 at 30 June 2010 (\$0.74 at 30 June 2009). The asset impairments in FY10 related to smaller civil construction equipment, whereas market values for larger mining equipment, which comprise approximately 90% of the Emeco fleet, have remained robust during this period, particularly in the Asia Pacific region.

Return on Capital (ROC) and Return on Funds Employed (ROC less goodwill) was 8.3% and 10.5% respectively at 30 June 2010, based on operating EBIT. Delivering an improved ROC for shareholders is the primary strategic focus going forward. In the past six months, meaningful steps have been taken to improve returns through the closure of the Europe and USA operations, divestment of the Victorian Rental business and downsizing and realigning the Australian Sales & Parts businesses. Recent improvements in underlying earnings of Emeco’s core businesses and the business rationalisation strategies are expected to drive improvement in ROC over FY11.

FINAL DIVIDEND

The dividend policy of the Board is to distribute to shareholders approximately 35% to 45% of annual operating NPAT and to frank dividends to the fullest extent possible.

In February 2010, the Board resolved not to pay an interim dividend in order to preserve cash and maintain balance sheet flexibility until it was satisfied that the recovery in the resources industry was flowing through to the mining services sector. The Board stated it would resume payment of dividends subject to the expected earnings recovery materialising over the balance of FY10.

The Group’s operating NPAT of \$41.1 million, which excludes the significant one-off impairment and restructuring charges given they are largely non-cash in nature, has satisfied the Board that the expected earnings recovery has been delivered. In considering an appropriate dividend, the Board has also considered the extent of available retained profits and franking credits, together with the company’s operating cash flow and strong balance sheet.

Accordingly, the Directors have declared a final dividend of 2.0 cents per share, fully franked, to be paid on 30 September 2010 on shares registered at 5.00pm on 6 September 2010.

OUTLOOK

While some volatility persists in the global markets, the momentum of Emeco's core businesses in the second half of FY10 provides a solid foundation for continued improvement in financial performance in FY11.

Mr Gordon said "Having now made clear decisions on all underperforming business, we will focus on optimising our core businesses to improve returns in the year ahead. We will also continue to position the business for longer term growth, with the overriding objective of consistent value creation for our shareholders".

"Emeco's business is geared towards the production component of the mining cycle and we saw the utilisation of Emeco's equipment in this market area increase significantly over the course of the second half. Our business performed well in the last quarter and although it is early days, we have carried this momentum into FY11 with global fleet utilisation remaining above 85%."

The Company will provide shareholders with an update on operating conditions and, outlook at its AGM in November.

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