Market Release
26 August 2009

EMECO FY2009 OPERATING NPAT IN LINE WITH GUIDANCE AND FINAL DIVIDEND 2.0 CENTS PER SHARE

- **Full year Operating NPAT of $57.7 million, down 14.5% pcp - in line with guidance**
- **One-off non cash impairment and restructuring charges of $44.5 million**
- **Strong operating cash flow of $175.4 million and $81.2 million after capex**
- **Debt facilities headroom of $331 million, after $73 million debt reduction in 2H09**
- **Final dividend of 2.0 cents per share, fully franked**
- **Operating environment stabilised and emerging signs of improving activity in FY10**
- **Bulk of earnings growth to come from large mining equipment rentals in Australia, Indonesia and Canada**
- **Management confirm NPAT guidance of $46–$53 million for FY10**

Financial Performance Summary

Emeco Holdings Limited (ASX: EHL) today reported an operating net profit after tax of $57.7 million for the 12 months ended 30 June 2009 representing a 14.5% decline on the prior corresponding period ("pcp") and in line with FY09 operating earnings guidance announced in May 2009. Operating cash flow after capex for the year was reported at $81.2m.

Emeco's Managing Director, Laurie Freedman said "The Company's strong start to the year with a record interim profit was overshadowed in the second half by unprecedented deterioration in activity across the global mining and construction industries."

"Despite facing the toughest trading conditions in the Company's 33 year history, Emeco generated a second half operating net profit of $18.7 million, maintaining strong cash flow of $40 million, and ensuring the balance sheet remained in very good shape during this volatile period.

"Emeco's business strategy is right, the signs of a turnaround are encouraging, and the business is very well positioned to see an improvement in earnings rate as we progress through FY10." Mr Freedman said.

A$M	FY08 Operating	FY09 Operating (pre significant items)	FY09 Statutory (post significant items)	% Change Operating
Revenue	617.9	528.2	528.2	(14.5)
EBITDA	213.5	210.9	185.3	(1.2)
EBIT	119.2	105.9	67.7	(11.2)
NPATA	68.6	58.1	26.2	(15.3)
NPAT	**67.5**	**57.7**	**13.3**	(14.5)

RENTAL | SALES | PARTS | ASSET MANAGEMENT

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The Group's FY09 revenue of $528.2 million and operating EBIT of $105.9 million was down 14.5% and 11.2% respectively as compared to FY08. Despite liquidity issues in global equipment markets in the second half Emeco recognised $2.4 million in profit on sale of rental assets (POSA) which contributed to total POSA of $3.9 million in FY09 on total asset disposals of $21.3 million.

Notwithstanding the operating NPAT of $57.7 million, the Company incurred significant one-off non-cash impairment and restructuring charges totalling $44.5 million, resulting in a statutory NPAT of $13.3 million for the year ended 30 June 2009. These impairment and restructuring charges comprise the following:

- An impairment and restructuring charge of $26.8 million as a consequence of the downsizing of the European business, including impairment of goodwill, tax asset write-off, impairment of sales inventory, provision for doubtful debts and restructuring costs;

- An impairment charge in respect of USA goodwill and tax assets totalling $9.9 million arising from the volatile and uncertain earnings outlook for this business;

- An impairment charge of $7.7 million on an after-tax basis ($9.3 million pre-tax) in respect of the carrying value of specific small sized rental equipment and inventory utilised in the construction sector in the USA and Canadian businesses.

FY09 Operating Review

The FY09 result is characterised by two contrasting halves. All businesses delivered strong earnings growth in 1H09, however Queensland (coking coal), Canada (oil sands), Western Australia (iron ore), and Australian Sales experienced a significant decline in activity in 2H09. High equipment utilisation was sustained in NSW and Indonesia due to robust thermal coal and gold markets throughout the year.

"Generally speaking, the decline in volumes was largely related to the suspension of mine development activity which was effectively put on hold until there was greater visibility on the outlook and confidence was restored. Production volumes inside mines in most markets have remained relatively stable. As the outlook is becoming clearer we are witnessing the re-commencement of development activity in both mining and infrastructure" Mr Freedman said.

The ***Australian Rental*** division generated $84.3 million EBIT, down 10.1% pcp representing approximately 80% of the group's EBIT. The division experienced strong demand across the board for most of the first half; however volumes in Bowen Basin coking coal, Pilbara iron ore and base metals deteriorated significantly in 3Q09. Thermal coal in the Hunter Valley, together with gold and civil infrastructure in all regions underpinned utilisation throughout FY09. A more stable operating environment emerged in QLD and WA during 4Q09 as customers resumed longer term operating plans which has provided the foundation for an improving outlook for FY10.

Australian Sales division contributed $7.3 million EBIT for the year; down 42% pcp. This EBIT decline is related solely to market conditions in the second half as customers deferred capital investment decisions and had limited access to finance. Activity was further impacted by the Government's stimulation package which saw the introduction of tax incentives diverting buyers from used to new equipment purchases.

Continued earnings growth by the ***Indonesian Rental*** division was achieved in FY09 with a strong EBIT contribution of $18.6 million up 89.8% pcp. The earnings performance reflects growth in thermal coal volumes and continued penetration of the Emeco rental model in this market. Having secured a number of large contracts during FY09, approximately $30 million has been invested either through purchase of new equipment or transfer from other businesses to meet this demand. The transfer of assets into Indonesia from other businesses underscores the value of Emeco's scale and diversification.

The ***Canadian Rental*** division grew strongly in 1H09 with EBIT of $11.1 million as Emeco established its presence in this market. However, a substantial winding back of oil sands development, natural gas drilling and general construction activity resulted in a 2H09 operating EBIT loss of $1.6 million which resulted in a full year EBIT of $9.5 million; down 38.7% pcp. The suddenness and magnitude with which activity declined was significant, however cost reduction strategies and the ongoing reorientation of the fleet towards larger mining equipment where longer term demand fundamentals remain intact will ensure a return to profitability in 1H10 and positioning for further growth in 2010.

USA Rental & Parts division achieved 1H09 EBIT of $1.2 million with average utilisation of 77%, however reduced activity in the Appalachian coal region, driven by lower coal prices adversely affected utilisation during the second half. This resulted in an overall operating EBIT of $1.8 million for FY09, representing a significant turnaround from the $4.1 million EBIT loss in FY08.

Continued deterioration of trading conditions throughout the year for the ***European Sales division*** resulted in an operating EBIT loss of $4.5 million. The Company undertook a strategic review in late FY09 which has resulted in a decision to significantly downsize the business over the next 6 to 12 months.

Cash Flow

Emeco generated strong operating cash flow before net capex of $175.4 million and $81.2 million after net capex representing 12.9 cents per share. Free cash flow after dividends totalled $45.5 million for the period.

Net capital expenditure which comprises equipment purchases and component rebuilds less rental fleet disposals totalled $94.2 million, down from $165.1 million in the prior year. Lower utilisation of individual machines and the overall fleet has inherently reduced the Group’s capital expenditure program during FY09.

Rental fleet disposals totalled $21.3 million in FY09 versus $43.8 million in FY08. As liquidity in global asset markets improves, the Company plans to dispose of non-core rental fleet such as small civil-construction equipment in North America and Europe as part of the strategy to recycle capital into higher utilisation assets and ultimately improve the Group’s return on capital.

Cash flows from net working capital reductions amounted to $31.8 million for the 12 months to 30 June 2009, reflecting the increased focus on cash flow management.

Stephen Gobby, Emeco’s Chief Financial Officer said “strong operating cash flows, stable working capital levels, and our strategy to dispose of non-core equipment will provide us with flexibility to retire debt, reinvest in assets for medium term earnings growth or undertake capital management initiatives.”

Balance Sheet

The impairment and restructuring charges recognised at 30 June 2009 have reduced net tangible assets **(NTA)** per share by 6% from $0.79 to $0.74. The reduction primarily relates to impairment of small-civil construction equipment in Europe and North America where a significant decline in construction sector activity together with equipment oversupply has impacted values of small size equipment in those markets. However, asset values in the Asia Pacific region have remained relatively robust during this period as supply and demand has generally remained in-line, particularly in larger mining equipment. This is further evidenced by the continuing realisation of profits on sale of disposal of existing fleet.

Net debt reduced $72.9 million over the six months to $331.2 million at 30 June 2009, comprising cash debt repayments of $35.2 million and $37.7 million due to appreciation of the AUD. Net debt comprised $327.6 million of senior debt, $14.0 million of finance leases, less cash of $10.4 million. Despite lower earnings in 2H09, the debt reduction strategy maintained comfortable covenant ratios headroom with gearing levels at 1.8 times (Net Debt : EBITDA) and interest cover at 8.1 times (EBITDA : Net Interest Expense).

The Company remains well capitalised with available headroom of $331.2 million via its $595 million 3-year revolving debt facility (maturity in August 2011), $35 million working capital facility and $32.5 million of finance lease facilities.

"The last six months has demonstrated the exceptional balance sheet flexibility of this business model. We have been able to reduce debt to appropriate levels in line with the lower demand and earnings environment" Mr Gobby said.

"We believe the business model can comfortably operate and fund its core requirements at gearing levels at or just below 2 times Net Debt to EBITDA and our ability to maintain that ratio through the earnings cycle has been proven."

Final Dividend

A fully franked final dividend of 2.0 cents per ordinary share has been declared by the Board taking the full year dividend to 4.0 cents fully franked. The annual dividend is consistent with the Company's stated dividend policy of 35% to 45% repatriation of annual profits. The final dividend will be paid on 30 September 2009 on shares registered at 5.00pm on 7 September 2009.

Business Model and Outlook

The durability of Emeco's business model has been validated during the difficult trading conditions in the second half of FY09. Emeco's customers have continued to utilise the rental model for reasons including flexible fleet configurations, capital management solutions, high quality equipment to enhance production efficiencies and access to Emeco's global procurement and disposal capability.

Mr Freedman said "Having invested heavily in our asset base over the last 4 years, we can now expect earnings growth in FY10 to emerge from the installed capacity of the business as activity increases and asset utilisation rates move back towards their normal historical levels. At the same time our focus on liberating cash from any underperforming assets will enable us to reinvest to ensure medium term earnings growth. This focus is highlighted by our strategic decisions to downsize Europe, reduce our exposure to smaller civil construction equipment, and consider the various strategic options available to us in the USA".

"The bulk of our earnings growth is expected to come from Australia, Indonesia and Canada over the next 2 years, primarily through increased utilisation and organic growth of our larger mining fleet to meet the expected growth in commodity volumes in coal, gold, iron ore and oil sands. We also expect the recovery in global credit markets to be more protracted than the global economic recovery, which will benefit the Emeco rental model".

While the operating environment remains uncertain, there are positive signs emerging from the mining and construction sectors with increased enquiry levels across all businesses.

"Pleasingly, overall fleet utilisation in August is approaching 70% indicating that we should experience an improvement in earnings rate as we progress through FY10, particularly when compared to the very challenging last six months of FY09." Mr Freedman said.

Notwithstanding continuing uncertainty regarding the global economic outlook and the anticipated recovery, the Company is currently forecasting FY10 NPAT to be in the range of $46 million to $53 million - broadly consistent with consensus analyst earnings expectations. The Company notes that earnings guidance for 2010 reflects a measured recovery in activity in the first half with stronger earnings in the second half of FY10. While trading since early July underpins expectations regarding a sustained recovery through 2010, the Company will provide shareholders with an update on operating conditions, outlook and guidance at its AGM in November.

"The combination of utilisation upside in the existing asset base and our strategy to recycle underperforming capital into more suitable assets, against the backdrop of a broadly based economic recovery in FY10 is expected to position Emeco for significant earnings growth in FY11." Mr Freedman said.

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