Market release
18 November 2009

Managing Director's Address

Today will be my last address to shareholders as the Managing Director and Chief Executive Officer of Emeco Holdings Limited. After 10 years leading the Company through an exciting growth phase and 40 years in business, the time has come for me to step down from Emeco and out of corporate life.

For the shareholders, directors and employees of Emeco, I'm extremely excited with the appointment of Keith Gordon as the new Managing Director and Chief Executive Officer. Having already spent significant time with Keith I'm very confident that he has all the attributes to take Emeco to a new level. I would like to welcome Keith and wish him all the very best for the future.

I would also like to make mention of my departing colleague, Robin Adair. Robin and I have worked together for over 14 years. Together with me, Robin has spent the last decade growing Emeco into its current form. I would like to thank Robin for all his hard work over the years and I wish him all the success in the future.

With Robin and my departure, we are handing the reins over to Keith and the high quality management team that has been developed over recent times. I believe this new management team has the capability to continue to build Emeco into a Company that is well regarded in both financial markets and industry, and remains an employer of choice to existing and prospective employees.

I will now turn to our FY09 performance, before providing an operational update and outlook for the current financial year.

2009 – The year in review

The 2009 financial year was an absolute rollercoaster for the mining and construction industry globally. Emeco was not immune to this volatility and our earnings were ultimately impacted.

The silver lining to this turbulent time is that we were able to demonstrate to the world at large that the Emeco business model is sustainable through a tough economic cycle and in fact we have come out the other side in a strong position.

We experienced strong activity in the first half of FY09 achieving a record half year profit of $39.0 million. The increased contribution from Emeco's international businesses, in particular Indonesia and Canada, was a particularly pleasing feature of our first half result.

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After such a profitable first half, the suddenness and magnitude with which the global financial crisis unfolded in December 2008 was severe giving us little time to anticipate and adjust to the challenges that lay ahead in the remainder of the year.

Many of our businesses experienced a decline in utilisation in the second half of FY09, resulting in a lower earnings to $18.7 million for the half.

The most significant decline in activity was related to coking coal in Queensland, oilsands activity in Canada, iron ore and gold activity in Western Australia, and poor trading conditions in Europe. Sales and Parts volumes were also down significantly due to constrained purchasing by customers in the second half. However, our NSW and Indonesian businesses managed to sustain utilisation throughout the year due to the robust thermal coal market

Against the backdrop of lower utilisation, I was really pleased that we delivered strong cash flow in excess of $40 million in the second six months of FY09 to reduce debt. This is testament to the sustainability and flexibility of the Emeco business model through a testing economic cycle.

While some companies fared poorly during FY09, Emeco's balance sheet remained strong throughout the year enabling us to weather the storm. Completing the refinancing of our $595 million debt facility with a quality banking syndicate not only provided us with some flexibility through the challenging environment, but it has also enabled us to capture opportunities as the recovery plays out.

I will now touch briefly on some detail in the group's earnings in FY09.

The Group's FY09 revenue of $528.2 million and operating earnings before interest and tax **(EBIT)** of $106.3 million was down 14.5% and 11.6% respectively as compared to FY08.

At the operating level, NPAT before significant items declined 14.7% from $67.5 million to $57.7 million in FY09, which is a reasonable result given the external factors that were impacting most businesses globally during 2009.

The most disappointing element of the full year result was the impairment charges. Depressed trading conditions in Europe and North America, particularly in the civil construction sector resulted in largely non-cash one-off impairment and restructuring charges of $44.5 million. This resulted in a statutory NPAT of $13.3 million for the 12 months ended 30 June 2009.

Due to the earnings decline in the second half while maintaining a constant capital base, the group's return on capital was 11.6% for the year.

We have been focused on improving our return on capital for some time now and we expect to see improvements going forward as earnings trend upwards, but more importantly as we liberate capital that is delivering below hurdle rate returns.

Our people

Central to the success of every business is its people. At Emeco we are focused on our people from 2 perspectives. First, we aim to ensure our people operate in a safe working environment. Secondly, our objective is to continue to build capability through internal development and promotion together with recruitment of quality individuals who will assist Emeco to achieve its corporate objectives.

We continued our focus on enhancing Emeco's safety management systems and capability during the year. In Australia, we ended the year with a fully resourced team of experienced safety professionals who are providing advisory, training and monitoring services to our Australian business units.

The positive trends we are achieving in LTI and MTI frequency rates is testament to the success we are having in enhancing the safety culture across the organisation.

From a capability perspective, we continue to invest in training our people and recruiting quality individuals from management to maintenance staff. On this front, I'm very excited about the progress we have made in further building our capability.

Last, I wish to highlight the salary and wage freeze implemented across the organisation in early 2009. Due to the challenging earnings environment in which Emeco has been operating, the management team believed it was appropriate to undertake this initiative for the financial wellbeing of the Company. This salary and wage freeze will remain in place until we return to a stronger earnings environment.

Asset strategy

I would like to take a moment to reaffirm our asset strategy previously outlined at our full year results in August, and provide an update on some progress in this area.

Strategically we intend to continue reducing our exposure to small construction equipment. Over the longer term, we do not believe Emeco can create a point of difference with this equipment in our markets. We are focused on disposing of this equipment to liberate cash; however I would note that the market remains extremely challenging due to significant surplus capacity in this smaller class of asset. For this reason we expect this disposal strategy will take at least another 18 to 24 months to complete.

With respect to our medium sized equipment which is generally used in smaller metals mines and for construction activity on larger mines, we intend to largely hold our position in this equipment range to meet increasing demand which we expect to increase over the next 6 to 12 months. While there remains some surplus market capacity in this asset range, we are expecting this to be consumed through increased demand in the immediate term.

Our overarching approach coming into this financial year was to constrain capex and focus on leveraging earnings from the installed asset base, and dispose of non-core equipment assets. At the same time, we indicated that should markets continue to improve and compelling investment opportunities arose, then we may opportunistically use our balance sheet to invest in the right assets for the up cycle.

Over the past 2 months, demand for 190tn to 240tn trucks has continued to strengthen across our markets in Australia and Canada. At the same time, we were fortunate to access three separate packages of equipment which ideally matched this demand.

As a result, we have recently committed to purchasing over thirty 190tn to 240tn trucks for a total investment of $95 million. All these assets will be deployed into coal, iron ore and oil sands in Australia and Canada to meet the strong demand in 2010.

These acquisitions will result in debt peaking at around A$380 million in the short term, however this is well within our existing debt facilities. Importantly, earnings and cashflow from this equipment is expected to be generated immediately which will be used to reduce debt in 2010.

Total gross capex for FY10 is now expected to be approximately $160 million, which comprises $55 million of sustaining capex and $105 million of growth capex, which primarily represents these large truck investments. I would note that we are continuing to constrain sustaining capex by not replacing end of life machines in asset classes where we believe we are overweight over the medium term.

Overall, the progress we have made on the asset strategy is exciting and we look forward to making further progress towards achieving our objectives over the next year.

Our markets & customers

Moving to the external environment, there are a few observations I would like to share with you.

In the past 12 months, companies of all sizes across all commodities rapidly wound back operating activity to withstand the volatility of the global financial crisis. This significantly impacted short term volumes in most markets, which ultimately impacted many mining services companies including Emeco.

This volatility really only subsided in June/July of this year. In the last few months we have been experiencing increased enquiry and tendering activity, however the translation into utilisation has been subdued. Utilisation has been slowly improving through the first quarter, but we are forecasting a material utilisation pick up late in the second quarter which will create earnings momentum in the second half of this financial year.
At a macro perspective, we believe the volume outlook for most of our key commodities is quite robust.

Thermal coal volumes in Australia and Indonesia have remained consistent throughout the global financial crisis, and we expect further volume growth in these markets over the next few years.

The short to medium term outlook for metallurgical coal in Queensland and iron ore in Western Australia continues to improve with a number of larger mining houses recommencing both mining to meet existing demand and expansion projects based on the positive demand outlook.

While activity for our larger gold customers in Australia has been relatively constant over the past 12 months, a number of smaller gold projects are expected to recommence in the second half due to strong gold prices and access to capital. This bodes well for our medium sized mining class equipment across Australia in 2010.

The Canadian business was quite severely impacted by the downturn in oilsands activity in FY09. However with oil prices stabilising and the global economic uncertainty abating, activity in this market is picking up and we expect it will be sustained over the coming years.

There are 2 markets which we expect to remain challenging throughout this financial year. Our USA business is leveraged to domestically consume thermal coal for power generation. Current demand for coal volumes is low due the depressed state of the US economy and therefore we do not expect an improvement in activity until mid 2010.

We also believe the Australian sales business will face a challenging market through to mid 2010 as a return to purchasing by our customers will be slow and gradual.

Looking at our customer profile, we continue to expand our offering to the large mining houses and contractors. What this is demonstrating is that our customers continue to utilise the rental model for varying commercial reasons.

These include:

- greater flexibility in fleet configurations;
- a capital management solution, particularly for customers with constrained balance sheets;
- ready availability of high quality equipment to improve production efficiency; and
- managing residual value risk.

Strategy

Whilst our short term focus is on improving utilisation and further penetration of existing markets, the group is poised to take advantage of the right opportunities as they emerge.
We expect to maintain our focus on recycling assets to lift the return on capital. 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 market.

As I have already discussed, while we remain focused on capital expenditure and balance sheet management the investments in the larger trucks have compelling strategic merit. This investment will position Emeco for a strong upturn in activity in 2010 in the bulk commodities and oilsands, and in the longer term reduce earnings volatility through the commodity and economic cycles.

We expect the recovery in global credit markets to be more protracted than the global economic recovery, which will benefit the Emeco rental model.

The bulk of our earnings growth is expected to come from Australia, Indonesia and Canada over the next 2 years, primarily through organic growth of our larger mining fleet to meet the expected growth in commodity volumes. The Company will also continue to monitor the market for external opportunities which are value creating with acceptable risk profiles.

With Keith's recent appointment, I'm confident that he will work with the board and management to enhance the longer term strategy to ultimately deliver a quality return on capital for Emeco's shareholders.

Current performance and outlook

We provided FY10 earnings guidance to the market in August, at a time when there was significant uncertainty around the recovery profile. Our experience to date has been that the early part of the recovery has been slow and that the ultimate speed of recovery is still difficult to predict.

However, in recent weeks we are observing the early stages of a surge in activity in our major markets which we expect to underpin a step change in second half earnings. Furthermore, our medium term outlook is positive as our major customers in key commodities across coking coal, iron ore, thermal coal, gold and oil sands return to historical production levels and recommence expansion projects.

With respect to the FY10 earnings outlook, there are a number of factors which are influencing earnings since the previous guidance in August.

There are a few key items which represent downside risks to the full year earnings. These include:

- a flatter than expected utilisation profile in 1H10 in Western Australia, Queensland and Canada as customers have been slower to make decisions in the early part of the recovery;
- increased costs in 1H10 to prepare a significant amount of equipment for engagement in early 2H10;
- recovery in US coal market not expected until middle to late 2010 which will reduce earnings in our US business;
- continuation of a subdued market for the Australian Sales business throughout FY10.

Largely offsetting these downside risks are several upside factors which include:

- a $95 million investment in the large truck fleet that was not previously contemplated in the earlier guidance will generate incremental earnings in 2H10;

- recent contract wins in Queensland, Western Australia and Canada commencing in 2H10 which will utilise existing idle fleet;
- the outlook in export volumes for coking coal and iron ore in Australia and oilsands in Canada is driving increased activity across these sectors in 2010;

At this early stage in the financial year, on balance we expect these various factors to offset one another. However, the appreciation of the AUD in recent months is expected to impact our full year NPAT by at least $2 million.

As a result of the currency impact we now expect our full year earnings will be towards the lower end of the previous earnings guidance of $46 million to $53 million.

With respect to the composition of our guidance, we expect approximately 70% of earnings to be generated in the second half. The significantly stronger second half earnings is underpinned by our newly acquired large trucks being 100% deployed by January 2010, recent contract wins for existing idle fleet and strong outlook for Emeco's key commodity exposures in 2010.

We anticipate providing further guidance at our half year results presentation in February 2010, where we will have further visibility on the recovery of the market and the likely impact on our full year 2010 performance.

In closing, I would like to thank my fellow directors, the management team and all employees, both past and present for joining me on the Emeco journey. The relationships I have forged in working with this fantastic group of people is something I will cherish forever.

Finally, I would like to thank our shareholders for their continuing support and I look forward to watching Emeco achieve success into the future.

Laurie Freedman
Managing Director

About Emeco

Emeco is a leading global provider of heavy earthmoving equipment with offices in Australia, Indonesia, the Netherlands, Canada and the USA. Emeco has integrated rental, sales, parts, maintenance and procurement into a single business for high reliability, low-houred heavy earth moving equipment for the mining and civil construction sectors. Emeco is not aligned with any earthmoving equipment manufacturer and has a global fleet approaching 2,000 machines including equipment manufactured by Caterpillar, Hitachi, Komatsu, Liebherr and Volvo.

Emeco's ordinary shares are traded on the Australian Stock Exchange under ASX code EHL.