Market release
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Managing Director's Address to the 2010 Annual General Meeting

Today I am very pleased to make my first address as Managing Director and Chief Executive Officer to the shareholders of Emeco Holdings Limited at an annual general meeting. Since the last AGM, when my predecessor Laurie Freedman addressed you for the last time after 10 successful years at Emeco, your company has emerged from the GFC with good momentum, and has developed and implemented a strategy which we believe provides a sound basis for the future growth of the business.

Before discussing our strategy and the current operating environment I would like to spend some time reviewing our performance in the 2010 financial year.

FY10 – The year in review

There is no doubt that Emeco experienced two contrasting halves in 2010.
The business started the financial year having weathered one of the most dramatic downturns the mining and construction industry has ever experienced during the second half of the 2009 financial year. In July 2009, fleet utilisation was 60 per cent reflecting a significant drop off in activity in the construction industry and a major wind back of non-essential work in the resources sector over the previous six months. Importantly for Emeco, a significant proportion of its fleet of earthmoving equipment was involved in core production activities on mine sites where this activity was not as severely impacted as other operations. This equipment generally stayed in work throughout the GFC.

Net Profit After Tax in the first half of FY10 was $13.6 million and return on capital fell to 6.0 percent at 31 December reflecting the low levels of utilisation. However, operating cash flow was strong and free cash flow prior to investment in growth capital was positive.

As the first half of the financial year progressed, the early signs of a recovery began to emerge in some sectors. Enquiry from customers involved in bulk commodities in Australia and Indonesia, and in the oil sands sector in Canada began to increase and fleet utilisation began to improve. Towards the end of the first half, the improving market fundamentals and customer demand gave the board the confidence to commit to the purchase of three large packages of used mining equipment. The company bought a fleet of 240 tonne trucks in Western Australia, a fleet of 190 tonne trucks and a large excavator in Queensland, and a fleet of 190 tonne trucks in Canada. Delivery of the Western Australian and Queensland fleets was taken immediately and all this equipment was put to work early in the second half. The Canadian trucks were factory rebuilds

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and delivery was taken progressively over the second half with the last of these trucks delivered in July 2010.

Although we were seeing improving prospects in the mining sector, the civil construction market was still depressed at this time, and furthermore, a flood of used civil earthmoving equipment onto the market along with soft demand put downward pressure on equipment values in this market. This was particularly the case in North America and led Emeco to taking a $13.3 million pre-tax impairment on its civil equipment fleet in that market. In Australia, the appreciating Australian dollar led to a $4.5 million impairment of the Australian Sales and Parts inventories.

As we moved into the second half of FY10, activity in the resources sector began to pick up further. Over the course of the half, fleet utilisation increased from 73 per cent at 31 December to 86 per cent at 30 June. Idle mining equipment was put back to work on the back of increased activity in coal, iron ore, gold and oilsands and significant inroads were made into the disposal of surplus civil equipment.

Our NPAT for the second half, at $27.5 million, was more than double that of the first half reflecting the improved operating environment. So on a full year basis, our results for FY10 were a blend of one half of relatively weak earnings and one half of far stronger earnings.
Some of the relevant details for our full year FY10 financial performance are as follows:

- The Group's FY10 revenue of $444.4 million was 15.9 per cent below FY09 revenue reflecting a drop off in rental revenue and a significant fall in revenue from equipment sales.
- Operating earnings before interest and tax (EBIT) of $83.6 million was 21.1 per cent lower than FY09. EBIT margins were slightly lower in FY10 than in FY09 due to the minimum fixed depreciation charges incurred on idle equipment.
- NPAT before significant items was $41.1 million, a result 28.8 per cent lower than FY09.
- Statutory NPAT was a loss of $49.3 million. This resulted from the first half impairment charges I mentioned earlier as well as some restructuring charges incurred in the second half. These charges arose out of the strategic review of the business which I will talk to shortly.
- Lastly, return on capital at June 30 was 8.3 per cent, down from the 9.1 per cent result 12 months earlier, but an improvement from the 6.0 per cent return on capital at 31 December 2009.

Although the charges that gave rise to our statutory loss were largely non-cash in nature, I would like to emphasise that management and the board are disappointed that these charges needed to be incurred. However, we feel that they were necessary to allow us to liquidate surplus civil equipment and exit from businesses that we did not think would generate satisfactory returns for our shareholders in the future. Having taken these charges, we now need to focus on our core businesses and ensure we deliver acceptable returns over time from these businesses.

Our markets

In the Australian rental business, average utilisation increased from 68% in the first half to 77% in the second half of FY10. Utilisation was maintained at high levels throughout the year in New South Wales, primarily due to exposure to the thermal coal market where activity amongst Emeco's customers continued at historically high levels. Notwithstanding the impact of rain in the third quarter, fleet utilisation improved in Queensland across the second half reflecting the recovery in the coking coal sector over that period. In Western Australia, increased demand from the gold and iron ore sectors also drove an improvement in utilisation in the second half of the year.

In Indonesia, demand for mining equipment was consistent over the course of FY10 reflecting steady thermal and metallurgical coal production by Emeco's customers. Our new maintenance facility in Balikpapan, Kalimantan was completed during the year and this provides further impetus for growth through its excellent location from an equipment servicing and logistics perspective.

FY10 was a year of transition for the Canadian business. This commenced with the acquisition of the fleet of mining trucks I mentioned earlier followed by $26 million of mining equipment being transferred from the USA business to Canada. At the same time, significant progress was made in disposing of surplus civil equipment with around 140 pieces of equipment sold. With this reconfigured fleet, the Canadian business is now well positioned to exploit mining market opportunities across the region. Operationally, the business delivered improved results in the second half following a first half severely impacted by a downturn in activity in the oil sands market.

The Australian Sales and Parts businesses both recorded lower contributions than the prior year with demand being affected by customers deferring expenditure as a result of depressed activity and economic uncertainty.

Strategic Review

Together with the improvement in the external market over the second half, the Company completed a strategic review which will underpin future activity and growth.
Our strategy must revolve around our customers. An analysis of our markets, our businesses and our customer relationships has led to the conclusion that the customers we are best placed to service are those that operate in the mining sector in geographies that have growing resources industries. All of our efforts, and the capital we invest in our business, will be targeted at servicing these customers in order to generate satisfactory returns for our shareholders. Our strategy is simple and has three pillars:

Consistent value creation for shareholders

Creating value for shareholders has two dimensions – achieving a satisfactory return on our invested capital, and achieving consistent returns over time. Central to this pillar of our strategy is the disciplined investment of capital over time to generate returns above Emeco's WACC. To support this, we will continually evaluate our capital structure to ensure that it is optimised to deliver value to our shareholders and support growth in the business.

Optimise the core

The strategic review identified a number of businesses whose operations are not aligned with Emeco's strategic direction. We have completed or are in the process of exiting our European, USA, and Victorian rental business and we are repositioning our Australian Sales and Parts businesses. All of these restructuring activities will convert underperforming capital into cash.

Within our core mining rental businesses in Australia, Canada and Indonesia, which are characterised by growing mining industries, we will look to embed and further enhance our customer centric business model. This will be supported by the progressive implementation of our fleet strategy which will result in a greater weighting of large mining equipment in the fleet over time. It is this equipment in particular that is in high demand from our customers.

Sustainable growth

The third pillar of our strategy is sustainable growth. This will be achieved by building the internal capability to deliver longer term growth as well as expanding our offer into areas such as maintenance services. We will look to invest additional capital in our businesses where it is clear that the returns will exceed our cost of capital. In time, we will evaluate the addition of other products, services and geographies to our customer offering.

The group has incurred significant restructuring charges in implementing this strategy. During the second half of FY10, we exited from our business in Europe and our rental operation in the USA. We also allowed for restructuring and goodwill impairment charges related to our announced exit from our Victorian rental business and the re-focus of our Australian sales and parts businesses. These charges, which together with the first half impairment charges I mentioned earlier, amounted to $90.4 million and resulted in the company reporting a statutory loss in FY10.

On the positive side, we have been able to liberate capital from these underperforming businesses and that capital will be redeployed into our more profitable businesses. Over time, this will lead to a better quality of earnings for our shareholders.

Our people

Central to the future success of Emeco are our talented and dedicated employees. On behalf of the board, I want to take this opportunity to thank everyone for their significant contribution over the course of FY10 as we recovered from a major downturn and undertook significant business restructuring.

Pleasingly, I believe Emeco made significant progress in FY10 toward ensuring its safety management practices are uniformly world class. Our ultimate safety objective remains "zero harm" and this objective continues to guide us in how we manage and think about safety in the workplace. In a broader context, we have recently completed an employee culture survey and coming from that have developed a vision and values program which we are currently launching internally. Under the brand "empower", our vision and values program is the first in what will be a series of initiatives to ensure that we recognise the contribution of our employees, and provide the structure and support to help them achieve their potential. The management team is very committed to delivering on this in 2011. The support of our people is critical if we are to achieve as a company.

Current performance and outlook

Emeco entered FY11 with utilisation sitting at 86% and it has been maintained around that level over the first four months of the year. Utilisation at the end of October was 89%. Operationally, all of our businesses have been performing well and over the past few weeks, we have been able to gain greater certainty over a number of factors that were influencing our view of first half performance. These included:

- The redeployment of two large fleets of equipment from projects which were coming to an end in New South Wales;
- Strong utilisation being maintained in Canada in the lead up to the freeze period;
- Quantification of the impact of unseasonal weather events in Queensland in September and October; and
- Clarity around our borrowing costs for FY11 following the completion of our refinancing a couple of weeks ago

The other factor that has emerged as having a influence on our reported earnings is the strengthening of the Australian dollar. Although our businesses in Canada and Indonesia are tracking well, the earnings from those businesses are impacted by the strong dollar when they are translated into Australian dollars for consolidation.

As a result of this greater clarity, we have issued earnings guidance for the first half of FY 11 for NPAT to be in the range of $27 - $29 million dollars. This is comparable to our earnings in the second half of FY10 and broadly in line with consensus.

As we outlined in our strategy, we believe that the strong fundamentals for bulk commodities, gold and oilsands in our core markets of Australia, Canada and Indonesia will support long term growth for your business. The management team and the employees are committed to delivering on this growth potential.

In closing, I would like to thank the board and all Emeco employees for their support since I joined the company in December last year.

Further enquiries can be directed to:

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About Emeco

Emeco is a leading global provider of heavy earthmoving equipment with offices in Australia, Indonesia and North America. 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 sector. Emeco is not aligned with any earthmoving equipment manufacturer and has a global fleet of approximately 1,000 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.