*Market Release*
*21 February 2012*

# EMECO DELIVERS STRONG 1H12 OPERATING NET PROFIT OF $29.2M AND CONFIRMS GROWTH PLANS

## Key Points

- **Emeco delivers Operating NPAT of $29.2 million, comparable to PCP, up 10.1% on 2H11**
- **Statutory NPAT of $28.9 million, including $0.3 million loss from discontinued operations**
- **Global fleet utilisation averaged 85% in 1H12, currently at 92%**
- **$165 million FY12 growth investment progressing as planned**
- **Further growth in earnings and returns expected in 2H12**
- **FY13 growth committed via $50 million Chile step-out and $30 million Indonesian investment**
- **Revised dividend policy to distribute 40% to 60% of NPAT to shareholders**
- **25% increase in interim ordinary dividend to 2.5 cents per share, fully franked**

Emeco Holdings Limited (ASX: EHL) today reported net profit after tax (NPAT) from continuing operations of $29.2 million for the half year ended 31 December 2011, representing a 10.1% increase on 2H11. Statutory NPAT for the half was $28.9 million which includes a $0.3 million loss from discontinued operations.

Keith Gordon, Managing Director and CEO said “Demand for large mining equipment has been strong across the half, particularly in Australia where utilisation has remained strong. In the second half we are expecting all three regions to perform well with the Canadian winter mining program and Indonesian coal production underpinning higher average utilisation in our offshore businesses over the second half.”

“We remain focussed on improving returns and growing the business in core mining markets. The $165 million FY12 growth investment program for Australia and Canada is progressing as planned with approximately $125 million of this equipment delivered by 31 December 2011. In FY13 we will invest $50 million into the Chilean copper-gold mining market and expand our fleet in Indonesia by $30 million to leverage the improved performance of that business.”

**Regional Review**

The **Australian** business performed strongly with utilisation averaging above 95% across the half. Increased production activity across the Australian resource sector is translating into strong demand for Emeco’s equipment and maintenance services. The Australian business continues to experience some cost pressures, particularly in relation to labour in Western Australia and Queensland, which has moderately reduced margins during the half.

The previously announced $93 million of growth capital allocated to Australia in FY12 has been delivered and is now largely deployed. The majority of the Australian equipment was sourced from the global used equipment market which has proven an attractive procurement source for Emeco. As anticipated, the delay between purchase and



Emeco Holdings Limited | ACN 112 188 815
location Level 3, 71 Walters Drive, Osborne Park WA 6017, Australia | postal address PO Box 1341, Osborne Park DC WA 6916, Australia
phone +61 (0) 8 9420 0222 | fax +61 (0) 8 9420 0205 | email corporate@emecogroup.com | web www.emecogroup.com

deployment due to international relocation has had a short term impact on returns. As a result, rolling 12-month returns on funds employed (ROFE) in the Australian business has remained at around 23%.

**Emeco Canada** experienced a disappointing first quarter with lower than expected levels of activity in the oil sands market. Utilisation averaged 44% in the first quarter and 58% over 1H12. Earthmoving activity has picked up significantly over the course of the second quarter with the commencement of the winter program. Utilisation is currently at 96%.

The previously announced $72 million investment in large mining equipment is expected to be fully deployed during the fourth quarter. Much of this equipment has been contracted directly to oil companies and is expected to deliver positive benefits in utilisation. An improvement in average utilisation from the installed asset base is expected to increase earnings in 2H12 and the full year benefits of the growth capital are expected to drive returns higher in FY13.

During the second quarter, the **Indonesian** business completed the redeployment of the fleet which was off-hired toward the end of FY11. Financial performance was dampened in the first quarter by lost revenue and increased maintenance costs as this fleet transitioned through Emeco's maintenance facilities. Utilisation averaged 73% during the second quarter translating into a strong improvement in earnings as the business returned to historical performance levels with further upside in utilisation expected over 2012.

Over the last six months the new Indonesian management team has improved Emeco's customer profile in the region by targeting miners and contractors with high operating efficiency and low credit risk. Further supported by the positive view on thermal coal production growth and high enquiry levels, Emeco has recently committed an additional $30 million in organic growth capital to the Indonesian business which will be delivered in the first half of FY13.

**Geographic Expansion**

As announced earlier this month, Emeco will expand its rental operations into **Chile**. Operations will commence early in FY13, providing Emeco with an additional avenue of growth and exposure to a new market with a positive volume outlook.

Mr Gordon said, "We believe the fundamentals of the copper-gold market in Chile are very attractive for Emeco. Chile is a significant mining region today and the forecast growth in volumes over the next 5 years represents a great opportunity for Emeco. We believe we can build a sustainable business in Chile given that the majority of mines in the region operate towards the lower end of the global cost curve."

An initial investment of $50 million has been committed which represents ten new 240 tonne trucks plus related ancillary equipment and working capital. Equipment orders have been placed with the first five trucks expected to be working early in FY13 and the second five around mid FY13. As part of Emeco's ongoing global fleet optimisation program, consideration will also be given to redeploying some assets from other markets into Chile to ensure that an optimal fleet mix with appropriate scale is achieved.

"For some time now we have been focused on optimising our core businesses, improving shareholder returns and exploring opportunities for growth. Chile was identified as an attractive growth market which also provides commodity and market diversification benefits. Chile is a logical extension of our business which sits comfortably within our strategy," Mr Gordon added.

Ian Testrow, currently President of North American operations, will have his role expanded to include South America and will be responsible for overseeing the Chilean operations.

**Financial Performance**

| A$ million | 1H11[2] | 2H11 | **1H12** | PCP % |
|---|---|---|---|---|
| Revenue[1] | 253.6 | 248.9 | **273.0** | 7.7% |
| EBITDA[1] | 113.7 | 109.6 | **119.9** | 5.5% |
| EBIT[1] | 53.3 | 47.9 | **54.3** | 1.9% |
| Operating NPAT[1] | 29.5 | 26.5 | **29.2** | (1.1)% |
| Statutory NPAT | 30.1 | 25.5 | **28.9** | (4.0)% |
| R12 ROC (%) | 11.0% | 11.3% | **11.4%** | 0.4% |

[1] Excludes discontinued operations
[2] Excludes one-off impairment of Indonesian debtor ($6.0 million post tax)

Group operating revenue was $273.0 million in 1H12, being 7.7% higher than the prior corresponding period (PCP), primarily due to incremental investment in large mining equipment and higher maintenance services revenue.

EBITDA and EBIT margins were 43.9% (1H11: 44.8%[2]) and 19.9% (1H11: 21.0%[2]) respectively, down slightly versus PCP due to an increase in general maintenance costs across the business. This is attributable to various short term factors including a strategy to complete pre-winter repair and maintenance in Canada in the first quarter, an increased volume of equipment being prepared for redeployment in Indonesia and some equipment in Australia being repaired to extend its useful life in order to meet contract end dates during FY12. Rising labour costs in Australia have also impacted margins in the short term.

The Group generated operating cash flow of $114.0 million (1H11: $105.2 million) with free cash flow before growth capital and dividends of $64.3 million. After growth capex of $65.6 million and dividends of $18.9 million, the Group's free cash flow was negative $20.2 million (1H11: $42.4 million).

Total debt was $329.2 million at 31 December 2011, with undrawn facilities of $160.0 million. Gearing was 1.44 times (Total Debt: R12 EBITDA), slightly below Emeco's target range of 1.5 – 2.0 times. Debt is expected to increase through to 30 June 2012 as the balance of $165 million of committed growth capital equipment in FY12 is acquired and approximately $48 million of the FY13 growth capital equipment for Indonesia and Chile is paid for late in the current financial year. However, gearing is expected to remain at the lower end of Emeco's target range.

Rolling 12-month return on capital (ROC) increased to 11.4% at 31 December 2011, up from 11.0% achieved at 31 December 2010. The improvement in underlying ROC expansion was limited by the lag between payment and deployment of two large used equipment fleets in 1H12. Further improvement in ROC is expected in the second half of the year as this equipment contributes a full six months of earnings.

**Outlook**

"Whilst we are currently enjoying very strong utilisation we continue to monitor developments in the global economy. To this point, we have not witnessed any significant changes in customer activity in our core mining markets," Mr Gordon said.

"We are managing risk through negotiating longer contractual tenure and higher minimum hours, improving internal efficiencies and maintaining a strong balance sheet with conservative gearing levels."

"In the immediate future we will continue to focus on delivering superior mechanical uptime to support our customer's production targets and, in addition to the committed organic growth capital, will continue to explore opportunities to further strengthen the business."

"The Company has a clear focus on generating satisfactory returns, having established a strong presence with committed teams in our core markets of Australia, Indonesia and Canada, and commencing operations in Chile later in the year. I am confident that we will make further progress towards achieving our objectives over the remainder of the financial year and beyond," Mr Gordon added.

The combination of improved utilisation in Canada and Indonesia, coupled with the deployment of significant growth capital during 1H12, is expected to deliver growth in earnings and returns in the six months to 30 June 2012.

**Dividend**

The Board has declared an interim ordinary dividend of 2.5 cents per share, fully franked. The dividend will be paid on 29 March 2012 on shares registered at 5.00pm on 1 March 2012.

In addition, the Board has revised the Company's stated dividend policy to "distribute to shareholders between 40% to 60% of annual NPAT and to frank dividends to the fullest extent possible". The previous stated payout range was 35% to 45% of annual NPAT.

Mr Gordon said "The Board considered a number of factors before revising the policy and felt that given the strong financial position of the Company, a positive outlook for growth in operating cash flows and the significant level of surplus franking credits on hand, it could increase the payout ratio while continuing to pursue value creating growth opportunities."

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**Investor enquiries:**

Keith Gordon
Managing Director and CEO
+61 8 9420 0222

Stephen Gobby
Chief Financial Officer
+61 8 9420 0222

**Media enquiries:**

Peter Brookes
Citadel
+61 4 0791 1389

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**About Emeco (ASX: EHL)**

Established in 1972, Emeco is a leading provider of heavy earthmoving equipment solutions to the global mining industry with operations across Australia, Indonesia, Canada and Chile. Emeco has integrated equipment rental, maintenance and procurement capabilities into a single business providing customers with flexibility through the provision of reliable, low-houred heavy earthmoving equipment. Emeco is not aligned with any earthmoving equipment manufacturer and has a global fleet of equipment manufactured by Caterpillar, Hitachi, Komatsu, Liebherr and Volvo.