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ASX Release

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ASX: EHL ('EMECO' OR 'THE COMPANY')

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EMECO REPORTS FY15 OPERATING EBITDA OF $43.4 MILLION, WITH IMPROVED OPERATING PERFORMANCE OVER 2H FY15

HIGHLIGHTS:

- **FY15 Operating EBITDA of $43.4 million, down 36% from $67.3 million for FY14**
- **2H FY15 Operating EBITDA of $27.2 million up 68% on 1H FY15**
- **Global fleet utilisation currently 74%, up from 50% at the start of FY15 FY15 earnings and free cash flow impacted by $14.1 million of one-off costs incurred returning equipment back to work**
- **Liquidity improved with new $75 million asset backed loan, currently undrawn**
- **Project Fit expected to realise cost savings of $14.0 million in FY16**
- **FY15 strategic achievements to drive improved margins**

Emeco today released its financial results for FY15 highlighting an uplift in operating performance over 2H FY15. The business reported Operating Net Profit After Tax (NPAT) loss of $94.9 million for the year ended 30 June 2015, down from a $21.6 million loss for the prior year.

Emeco Managing Director and CEO, Ian Testrow said the challenging market conditions experienced over FY14 continued into FY15, with oil joining other commodities in the low price environment.

"The challenging market conditions our business experienced over FY14 continued into this financial year, with the fall in oil price adding to the low commodity price environment. There were no recovery in rental rates as miners remain focused on minimising their operating cost base."

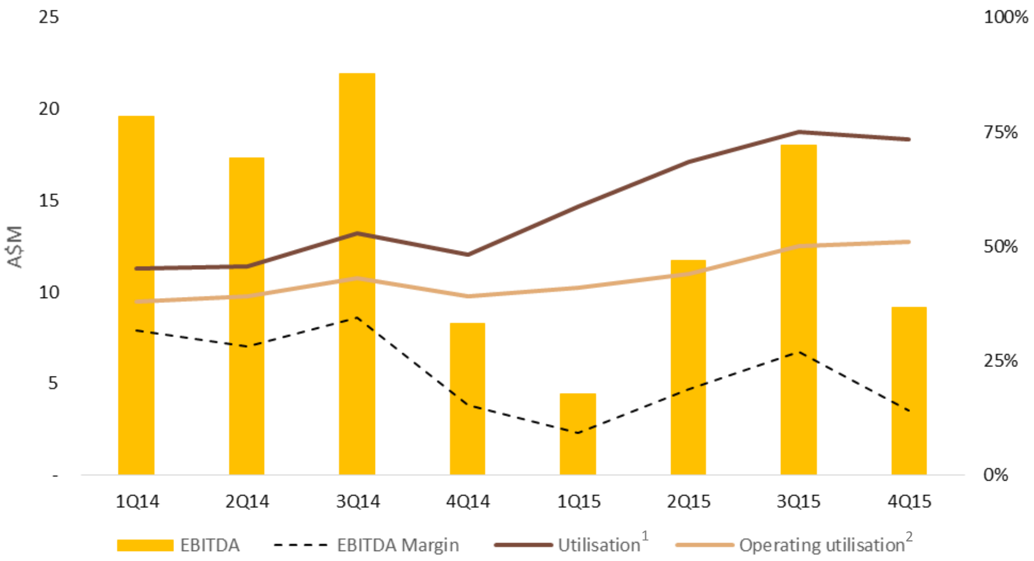
"Commencing the financial year at 50% utilisation we focussed on returning machines back to work, particularly in the Australian business. A higher level of customer engagement lead to a number of project wins driving utilisation to 74% at the end of FY15, despite the competitive market conditions."

"The business implemented our cost reduction program, Project Fit, to drive down our cost base and generate greater free cash flow from our operations. As such Emeco enters FY16 in a stronger position with higher utilisation combined with Project Fit savings, expected to generate improved profitability."

Emeco Chairman, Alec Brennan said, "The business has worked hard over the past 12 months to rebuild volumes and expand our offering beyond the typical mining rental business. I'd like to thank management and the team for their hard work over FY15. I specifically like to thank our former CEO Ken Lewsey who stepped down earlier in this month. I believe we enter the new financial year with a platform on which to build a more profitable business and the board looks forward to working with Ian Testrow and Greg Hawkins to this end."

OPERATING AND FINANCIAL RESULTS

Group Utilisation vs EBITDA vs EBITDA Margin



1 Utilisation defined as % of fleet rented to customers (measured by written down value)

2 Operating utilisation defined as ratio of operating hours recognised over a month, compared to a target average number of 400 operating hours over a month

Operating financial results

	FY15	FY14
Revenue	242.8	241.1
EBITDA	43.4	67.3 [3]
EBIT	(59.2)	(10.9) [4]
NPAT	(94.9)	(21.6)
Statutory NPAT[1]	(123.1)	(224.2)
Free cash flow[2]	(18.5)	85.9

1 FY15 Statutory NPAT includes one-off costs (pre-tax) comprising tangible asset impairments of $30.8 million, project revenue write back of $1.4 million, debt establishment cost write-offs of $1.8 million, corporate costs of $2.8 million and redundancy costs of $2.6 million

2 Free cashflow comprises operating cashflow, gross capital expenditure, proceeds from asset disposals and capital management

3 FY14 reported operating EBITDA of $72.1 million and statutory EBITDA of $27.2 million have been restated for comparative purposes. The changes relate to tangible asset impairments being reported below EBITDA (2014: $43.7 million) and foreign exchange gains and losses being reported below EBITDA (2014: $4.8 million)

4 FY14 reported operating EBIT loss of $6.1 million and statutory EBIT loss of $208.8 million have been restated for comparative purposes. The change relates to foreign exchange gains and losses being reported below EBIT (2014: $4.8 million)

5 Operating and statutory results exclude discontinued operations

Results Briefing Webcast

Date: Thursday, 27 August 2015
Time: 10.30am (AEST)

To join the webcast follow the link below or cut and paste the URL into your web browser.

http://event.on24.com/r.htm?e=1022934&s=1&k=B2AB79529D5C305E5AC61C9C5DF2E432

It is recommended you log-in 5 minutes prior to start to ensure correct system configuration.

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OPERATING AND FINANCIAL REVIEW

Average group utilisation for FY15 of 69% was significantly higher than the FY14 average of 48% despite continued weakness in the Australian mining sector and strong competition in our respective markets. Commencement of a number of projects in Australia, diversification in our Canada business and the ramp-up of the Encuentro project in Chile resulted in the sustained higher operating performance, particularly over 2H FY15.

Group utilisation is currently averaging 74% despite the cessation of rental with Saracen in Western Australia. The recent commencement of rental at Tata Steel's iron ore operations in Canada and the wet hire contract at AMSA's Esperanza site in Chile is expected to maintain this level of utilisation for 1H FY16.

Rental revenue was up slightly to $208.1 million (2014: $205.4 million) driven by improved utilisation, albeit on a smaller asset base. Maintenance services revenue increased 15.6% to $31.9 million (2014: $27.6 million) with the ramp up of the Kearl Lake facility in Canada, while consistent with prior reporting periods other income, including sale of parts and machines, declined in FY15 to $2.8 million (2014: $8.1 million).

Rental rate reductions in Canada in response to a fall in the oil price, one-off costs associated with preparing fleet for rent and increased operating leases on non-core assets were the primary contributors to a fall in operating EBITDA to $43.4 million (2014: $67.3 million). The one-off costs preparing machines for rent relate to units off-hired in prior periods and amounted to $14.1 million over FY15, with the bulk of costs incurred in 1Q and 4Q FY15.

The FY15 operating EBIT loss of $59.2 million (FY14: $10.9 million loss) was further impacted by an increase in depreciation as a result of the increase in utilisation combined with a change in depreciation policy on idle fleet.

The business demonstrated an improvement in margins over 2H FY15 primarily as a result of higher utilisation driving revenue growth. Heading into FY16 Project Fit is expected to generate cost savings of approximately $14.0 million, which combined with the improved operating performance is projected to result in further margin uplift.

REGIONAL REVIEW

The Australian business continues to be impacted by the low commodity price environment and austerity measures of miners, however a stronger focus on customer relationships resulted in improved utilisation.

The **New South Wales** business continues to remain the strongest of the Australian business units with current utilisation of 95% compared to 68% at the end of FY14. The business successfully placed additional units with existing customers and commenced two significant new contracts in the gold and thermal coal sectors.

Queensland continued its strong recovery from a low of 10% at 30 June 2014 with a number of projects commencing in May 2015 driving current utilisation to 84%. Our new Queensland management team worked hard to gain market share in a highly competitive environment, resulting in the contract wins.

Western Australia recently ceased rental services with long-term customer Saracen following a highly competitive tender process for a fleet at its thunderbox operations. Following the cessation of the Saracen rental contract, Western Australia is currently operating below 40% utilisation.

With regards to the outlook for FY16 in our Australian business Ian Testrow said, "Our Queensland and New South Wales businesses continue to perform strongly despite the competitive market. During the year ahead our strategy will remain focused on maintaining current levels of utilisation and assisting customers to utilise our fleet more effectively to increase operating hours. We will also focus on returning our Western Australian fleet back to work, which may include relocation of units to our East Coast businesses."

Heading into FY15 we announced our **Canada** business strategy as diversifying away from the oilsands industry and growing our mine site services business, both of which are expected to smooth the seasonality in Canada. Over the year operating conditions in Canada softened with oilsands producers responding to a fall in the oil price. Our Canada rental business maintained utilisation of over 80% over the winter period despite the challenging price environment. Rental rates were renegotiated during this period of seasonally high activity. The oilsands industry has been subdued over the recent summer months. A number of rental contract wins in coal and iron ore have maintained our utilisation at 60% heading into FY16.

Canada mine site services revenue increased by almost 70% in FY15. The completion of our Kearl Lake maintenance facility complements our ten year maintenance services contract on that site, while our strong relationship with oil majors resulted in an increased presence on our existing projects. We expect further growth in Canada mine site services with Emeco recently signing a five year contract to provide fuel and lubricant support to a major oilsands producer.

The **Chile** business entered FY15 securing the five year Encuentro contract in conjunction with Chile mining contractor Fe Grande. During FY15 our Encuentro mine contracting partner Fe Grande decided to cease operating in the mining industry to focus on other group businesses. Following discussions with Emeco and Encuentro owner AMSA, a process was entered to identify a suitable mine contractor to replace Fe Grande on site whilst retaining the quality equipment provided by Emeco. Commencing 1 July 2015 Emeco entered into a partnership agreement with leading global mining contractor Thiess to complete a four year mining contract for the pre-strip operations at Encuentro. We have seen a material operational improvement at the Encuentro mine and expect this project to be more profitable in FY16.

Chile has recently commenced wet hire of four units to AMSA's Esperanza mine ensuring utilisation of over 90% for first half FY16. This wet hire contract demonstrates our ability to work closely with customers to offer effective solutions to their resource needs.

Ian Testrow said, "Our Canada and Chile businesses continue to demonstrate the value of geographical and commodity diversification with recent contract wins in these regions ensuring we maintain current levels of utilisation for the foreseeable future."

BALANCE SHEET AND CASH FLOW

As previously announced, Emeco successfully completed the refinancing of its A$50 million syndicated debt facility with a new A$75 million Asset Backed Loan (ABL), improving Emeco's liquidity.

Emeco Executive Director, Finance, Greg Hawkins said, "securing the ABL provides Emeco greater flexibility and additional tenure to our debt facilities. The ABL has no maintenance covenants unless the facility is more than 50% utilised, which is better suited to our covenant light debt structure."

Net debt at 30 June 2015 was $413.9 million, up from $323.3 million the prior year. This increase was driven by a net increase in the value of our financing facilities and the fall in earnings resulting in a cash outflow for the year. The depreciation of the Australian dollar over FY15 increased the underlying value of the 144A bonds by A$80.4 million, with the increase offset by a corresponding benefit from Emeco's cross currency interest rate swap facilities which represented a A$49.4 million derivative asset at 30 June 2015 (2014: $10.0 million liability). Accounting for bank guarantees totalling $10.5 million, the ABL combined with cash of $27.8 million provides balance sheet liquidity of $92.3 million at 30 June 2015.

Emeco continues to manage its rental fleet to ensure it has the right mix of assets to actively compete in our markets. Similar to FY14 the business has reviewed its fleet to identify assets classes with low rental demand, transferring $43.7 million of idle assets to non-current assets held for sale (NCAHFS), recognising asset impairments of $23.9 million. As at 30 June 2015 NCAHFS totalled $32.3 million, including $8.0 million identified during FY14. There remains demand for these assets on the second hand market and management intends to dispose of them over FY16.

The level of capital expenditure continues to be monitored in light of the current market conditions. Capital expenditure for FY15 totalled $35.1 million, predominantly on machinery re-builds. The company made a number of asset purchases in fleet classes in high demand to assist with the utilisation growth. We have also taken advantage of attractive equipment operating lease opportunities, which has lowered capital requirements but impacts EBITDA earnings.

Greg Hawkins said, "Over FY15 we generated $24.8 million from asset disposals despite the difficult second hand market. We continue to right size our rental fleet to match asset classes to regional demand and focus on releasing cash from idle assets."

"Management remains conservative with its approach to capital management and is focussed on generating cash flow to deleverage the business."

STRATEGY & OUTLOOK

We achieved a number of strategic objectives over FY15 which has driven improved operating performance and a recent uplift in margins. Restructuring of the business over the past 12 months saw our new Queensland management team achieve significant growth in market share, we partnered with Thiess in Chile to secure a four year mining contract with AMSA, we further diversified operations in Chile and Canada outside the dry hire model and implemented our cost reduction program, Project Fit.

We made progress differentiating ourselves from competitors with development of the Emeco Operating System (EOS), our fleet management and mining technology platform. EOS provides Emeco customers access to leading edge technology with the support of the Emeco operations team. EOS monitors Emeco fleet operating on customer sites, providing customers' with real time access to fleet performance and production data to assist with managing their operations. Already implemented on Emeco fleet operating at Alkane's Tomingley gold mine in New South Wales, EOS has provided Alkane management information by dig unit, haul unit and operator which the business is using to get the fleet working more efficiently and reducing their operating costs.

Ian Testrow said, "The benefits of our strategic achievements over FY15 will result in a more profitable business from the outset of FY16. During the year ahead our strategy is focused on maintaining current levels of utilisation and improving margins to generate cash flow, which will be used to deleverage our balance sheet."

"The sustained downturn in the Australian mining services industry is expected to result in a period of consolidation and rationalisation for the sector if there is no recovery over the foreseeable future. Our current increased utilisation, improved margins from cost reductions and financing flexibility and tenure, positions us well to evaluate opportunities to participate in this consolidation."

– END –

About Emeco **emecogroup.com**

Established in 1972, Emeco is the world's largest, independent mining equipment rental business and currently services major resource projects across Australia, Canada and Chile. Emeco pursues a best in class asset management strategy and operates a global fleet of equipment from a range of original equipment manufacturers to deliver the most effective equipment rental and maintenance solutions for its customers. Emeco is a publicly listed company on the Australian Securities Exchange (ASX:EHL).