

Emeco Holdings Limited and its Controlled Entities

ABN 89 112 188 815

**Interim Financial Report
For the half year ended 31 December 2023**

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Directors' Report

31 December 2023

The directors of Emeco Holdings Limited (**Company**) submit this report in respect of the half year financial period ended 31 December 2023 and the review report thereon.

Directors

The following persons were directors of Emeco Holdings Limited during the half year and up to the date of this report:

Non-executive

Peter Richards (Chair)

Peter Frank

Peter Kane

James Walker III

Sarah Adam-Gedge (appointed 1 October 2023)

Executive

Ian Testrow (Managing Director & Chief Executive Officer)

Financial performance

Emeco Holdings Limited and its Controlled Entities (**Group**) reported a net profit after tax for the half year ended 31 December 2023 of \$19,404,000 (2022: net profit after tax of \$2,669,000), which includes \$15,656,000 pre-tax impairment and other pre-tax restructuring costs of \$1,234,000 associated with the sale of Pit N Portal contracts to Macmahon Limited. Total revenue for the period was \$434,525,000 (2022: \$429,537,000).

Dividends

During 1H24, a fully franked ordinary dividend of 1.25 cents per share, totalling \$6,488,000 was paid (1H23: 1.25 cents ordinary dividend per share, totalling \$6,538,000). During the period, the Company announced its intention to undertake an on-market share buy-back of up to \$7.3 million. This program was only partially executed due to trading restraints whilst the Company considered its confidential sale of Pit N Portal contracts to Macmahon. The board has elected to suspend the Group's capital management programme, to redirect capital allocations for share buybacks and dividends towards reducing financing requirements. The Company will develop and communicate an updated capital management strategy before year end.

Directors' report (continued)

31 December 2023

Review of operations

A\$ millions	Operating results ^{(1), (2)}		Statutory results	
	1H24	1H23	1H24	1H23
Revenue	434.5	429.5	434.5	429.5
EBITDA ⁽³⁾	137.1	113.5	133.3	89.7
EBIT ⁽³⁾	60.7	40.8	41.0	16.8
NPAT	33.2	19.6	19.4	2.7
EBITDA margin	31.5%	26.4%	30.7%	20.9%
EBIT margin	14.0%	9.5%	9.4%	3.9%

Notes:

1. Certain items have been excluded from the statutory result to aid the comparability and usefulness of the financial information. This adjusted information (operating results) enables users to better understand the underlying financial performance of the business in the current period.
2. Operating results are non-IFRS.
3. EBITDA: Earnings before interest, tax, depreciation and amortisation, and impairment of tangible assets; EBIT: Earnings before interest and tax. These measures are non-IFRS. Refer to the operating to statutory results reconciliation below for further information.

1H24 Operating to statutory results reconciliation

A\$ millions	Statutory	Tangible asset impairments	Long-term incentive program	ERP Implementation	Restructuring expense	Gain on lease modification	Tax effect of adjustments	Operating
EBITDA	133.3	-	1.8	2.0	1.2	(1.2)	-	137.1
EBIT	41.0	15.9	1.8	2.0	1.2	(1.2)	-	60.7
NPAT	19.4	15.9	1.8	2.0	1.2	(1.2)	(5.9)	33.2

The following non-operating adjustments have been made to the statutory results:

- **Tangible asset impairments:** Net impairments totalling \$15.9 million (1H23: \$0.2 million) were recognised across the business on assets held for sale. The majority of this balance related to Pit N Portal property, plant and equipment assets of \$13.6 million and Pit N Portal inventory held for sale of \$2.1 million, which includes impairment of assets surplus to the rental needs of the Pit N Portal business going forward (1H23: nil).
- **Long-term incentive program:** During 1H24, Emeco recognised \$1.8 million of non-cash expenses relating to the employee incentive plan (1H23: \$0.9 million).
- **ERP implementation:** Expenditure of \$2.0 million (1H23: nil) was incurred during the period relating to the Group's ERP implementation project.
- **Restructuring expense:** The Group incurred non-recurring corporate restructuring expenses of \$1.2 million (1H23: nil), relating to the sale of Pit N Portal's contracting business.
- **Gain on lease modification:** A net gain of \$1.2 million (1H23: nil) was recognised during the period to remeasure a property lease relating to the Group's corporate head office.
- **Specific allowance for expected credit loss:** During 1H23, the Group recorded an expense relating to a specific allowance for expected credit loss of \$22.9m. There was no specific allowance for expected credit loss in 1H24.
- **Tax effect of adjustments:** notional tax on above adjustments at 30%.

Directors' report (continued)

31 December 2023

Operating results

Operating net profit after tax (NPAT) for the half year ended 31 December 2023 (1H24) was \$33.2 million, an increase of \$13.6 million from 1H23. This improvement was driven by increased earnings across all business segments, including the turnaround performance of the Pit N Portal business following a reset of the business during 2H23 including the termination of high-risk projects.

Group revenue for 1H24 was \$434.5 million, an increase of 1% from \$429.5 million in 1H23, due to growth in the Rental and Workshops segments reflecting strong market positions and customer demand across these segments. This was partially offset by a decrease in revenue in the Pit N Portal segment, due to the termination of high-risk projects in 2H23.

Rental revenue was \$259.8 million, up 9% from \$238.6 million in 1H23 due to strong rental demand in both the Eastern and Western Regions. The Rental segment was able to deploy idle fleet and secure rate increases with new projects, contract extensions and application of contractual rise and fall mechanisms.

Workshops revenue was \$82.7 million, up 21% from \$68.3 million in 1H23 driven by increased activity and rates in a major customer contract.

Pit N Portal revenue was \$92.0 million, down 28% from \$127.5 million in 1H23, due to Emeco's decision to reset the business during 2H23, predominantly by terminating high-risk projects. Subsequent to period end, Pit N Portal's contracting business was sold to Macmahon for consideration of approximately \$10.1 million of in-demand surface and underground mining equipment, to exit contract mining and to reposition the business to focus on underground rental. This resulted in an impairment to some residual assets and inventory held for sale at 31 December 2023. Refer to note 7 for further information.

Operating EBITDA was \$137.1 million, increasing 21% from \$113.5 million in 1H23, and Operating EBIT was \$60.7 million, increasing by 49% from \$40.8 million in 1H23. Operating EBITDA and Operating EBIT margins were 32% and 14% respectively, up from 26% and 10% respectively, with increases in earnings and margins compared to 1H23 across all businesses driven predominantly by higher rental utilisation, contract repricing and Pit N Portal business performance.

Operating cash flow

Operating cash flow before financing costs was \$128.4 million in 1H24, up from \$84.3 million in 1H23. This was driven by Operating EBITDA of \$137.1 million, up from \$113.5 million in 1H23, partially offset by a net working capital outflow of \$6.7 million (\$29.2 million outflow in 1H23) and the \$2.0 million spend on the ERP project (nil in 1H23).

Net capital expenditure for the period was \$99.8 million, up from \$73.2 million in 1H23. This includes \$77.6 million in net sustaining capital expenditure and \$22.2 million in growth capital expenditure, up from \$63.9 million and \$9.3 million respectively in 1H23. The RCF was drawn to \$20 million at 1H24 period end, compared to \$35 million at 1H23.

Directors' report (continued)

31 December 2023

Net debt and gearing summary

\$A Millions	31 December 2023	30 June 2023
Interest bearing liabilities (current and non-current)¹		
Secured notes ⁴	250.0	250.0
Loan note agreement	20.0	-
Lease liabilities and other financing ⁴	84.5	72.7
Total gross debt	354.5	322.7
Cash	(64.5)	(46.7)
Net debt¹	290.0	276.0
Leverage ratio ^{2,3}	1.06x	1.10x
Interest cover ratio ⁵	11.4x	10.3x

Notes:

- Figures based on facilities drawn. Debt in the table above is a non-IFRS measure. Includes debt raising costs included in interest bearing liabilities in note 9.
- Leverage ratio – Net debt / Operating EBITDA.
- Leverage ratio at 31 December 2023 is based on last twelve months ("LTM") Operating EBITDA of \$274.0 million.
- Refer to note 9 in the interim financial report for information.
- Interest cover ratio – Operating EBITDA / Net interest expense.

Emeco's leverage ratio has decreased from 1.10x at 30 June 2023 to 1.06x at 31 December 2023, with improved earnings across all businesses driving higher operating EBITDA and cash compared to the prior corresponding period.

The Group's A\$100,000,000 Revolving Credit Facility ("RCF") includes cash available under a Loan Note Agreement ("LNA") of A\$95,000,000 and a bank guarantee facility of A\$5,000,000. The facility expires in December 2025, with an option to extend for a further two years to December 2027 at Emeco's election. All other terms of the RCF remain unchanged. At 31 December 2023, the Group had drawn A\$20,000,000 of the RCF leaving an undrawn facility of A\$75,000,000 (30 June 2023: nil drawn of A\$95,000,000). At 31 December 2023, the Group utilised A\$3,509,000 of the A\$5,000,000 bank guarantee facility (30 June 2023: A\$3,509,000).

Refer to note 9 in the accompanying interim financial report for additional information on Emeco's financing facilities.

Directors' report (continued)
31 December 2023

Significant events occurring after half year end

On 2 February 2024, Emeco completed the sale of its Pit N Portal contracting business to Macmahon for consideration of \$10.1 million. Restructuring costs related to the transaction of \$1.2 million have been recorded in "other expenses" in the Statement of Profit or Loss or Other Comprehensive Income for the period ended 31 December 2023.

On 19 February 2024, the board elected to suspend the Group's capital management programme, to redirect capital allocations for share buybacks and dividends towards reducing financing requirements. The Company will develop and communicate an updated capital management strategy before year end.

There were no other significant events after the balance date.

Directors' report (continued)
31 December 2023

Auditor's independence declaration

The auditor's independence declaration is set out on page 9 and forms part of the director's report for the half year ended 31 December 2023.

Rounding of amounts

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The consolidated interim financial report was approved by the board of directors on 19 February 2024.

This report is made in accordance with a resolution of directors.



Ian Testrow
Managing Director
Perth 19 February 2024

The Board of Directors
Emeco Holdings Limited
Level 3, 133 Hasler Rd
OSBORNE PARK WA 6017

19 February 2024

Dear Board Members

Auditor's Independence Declaration to Emeco Holdings Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Emeco Holdings Limited.

As lead audit partner for the review of the half-year financial report of Emeco Holdings Limited for the half-year ended 31 December 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



A T Richards
Partner
Chartered Accountants

Emeco Holdings Limited and its Controlled Entities
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2023

		31 December 2023 \$'000	31 December 2022 \$'000
	Note		
Continuing operations			
Revenue	4	434,525	429,537
Other income		1,744	2,913
Repairs and maintenance		(77,740)	(82,530)
External maintenance services		(110,984)	(110,665)
Cartage and fuel		(10,582)	(9,162)
Employee expenses		(67,768)	(83,298)
Depreciation and amortisation expense		(76,361)	(72,732)
Impairment of tangible assets	3	(15,944)	(203)
Other expenses		(35,908)	(34,015)
Allowance for expected credit loss	13	-	(23,095)
Finance income		677	168
Finance costs	9	(13,762)	(13,069)
Net foreign exchange loss		(168)	(25)
Profit before tax expense		27,729	3,824
Tax expense		(8,325)	(1,155)
Profit after tax for the period		19,404	2,669
Other comprehensive income			
Items that are or may be reclassified to profit and loss:			
Foreign currency translation differences (net of tax)		169	30
Total other comprehensive income for the period		169	30
Total comprehensive income for the period		19,573	2,699

Emeco Holdings Limited and its Controlled Entities
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income (continued)

For the six months ended 31 December 2023

	31 December 2023 \$'000	31 December 2022 \$'000
Profit attributable to:		
Owners of the Company	19,404	2,669
Profit for the period	19,404	2,669
Total comprehensive profit attributable to:		
Owners of the Company	19,573	2,699
Total comprehensive profit for the period	19,573	2,699

	31 December 2023 Cents	31 December 2022 cents
Profit per share:		
Basic profit per share	3.75	0.51
Diluted profit per share	3.68	0.51

The condensed consolidated interim statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 27.

Emeco Holdings Limited and its Controlled Entities
Condensed Consolidated Interim Statement of Financial Position

as at 31 December 2023

		31 December 2023 \$'000	30 June 2023 \$'000
	Note		
Current assets			
Cash and cash equivalents		64,451	46,673
Trade and other receivables	13	139,237	157,765
Inventories and work in progress		18,708	23,435
Other current assets	6	29,325	16,890
Assets held for sale	7	17,920	1,165
Total current assets		269,641	245,928
Non-current assets			
Intangible assets		9,217	9,657
Property, plant and equipment		759,355	752,632
Right of use assets		86,251	75,527
Other financial assets		4,668	4,677
Total non-current assets		859,491	842,493
Total assets		1,129,132	1,088,421
Current liabilities			
Trade and other payables		134,284	147,143
Interest bearing liabilities	9	51,115	23,746
Liabilities held for sale	7	3,224	-
Provisions		11,333	15,645
Total current liabilities		199,956	186,534
Non-current liabilities			
Interest bearing liabilities	9	303,421	298,901
Provisions		689	696
Deferred tax liabilities		21,171	12,846
Total non-current liabilities		325,281	312,443
Total liabilities		525,237	498,977
Net assets		603,895	589,444
Equity			
Share capital	10	1,148,840	1,149,254
Reserves		(4,525)	(6,474)
Accumulated losses		(540,420)	(553,336)
Total equity attributable to equity holders of the Company		603,895	589,444

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 27.

Emeco Holdings Limited and its Controlled Entities

Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2023

	Share capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Treasury shares \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2023	1,149,254	24,087	(169)	(30,392)	(553,336)	589,444
Total comprehensive income for the period						
Profit for the period	-	-	-	-	19,404	19,404
<i>Other comprehensive income</i>						
Foreign currency translation differences	-	-	169	-	-	169
Total comprehensive income for the period	-	-	169	-	19,404	19,573
Transactions with owners, recorded directly in equity						
<i>Contributions by and distributions to owners</i>						
On market share buy-back	(414)	-	-	-	-	(414)
Dividend paid	-	-	-	-	(6,488)	(6,488)
Shares vested during the period	-	(4,127)	-	4,127	-	-
Share-based payment transactions	-	1,780	-	-	-	1,780
Total contributions by and distributions to owners	(414)	(2,347)	-	4,127	(6,488)	(5,122)
Balance at 31 December 2023	1,148,840	21,740	-	(26,265)	(540,420)	603,895

	Share capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Treasury shares \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2022 reported	1,155,856	28,475	14,579	(35,469)	(596,220)	567,221
Transfer of FCTR to accumulated losses	-	-	(14,579)	-	14,579	-
Balance at 1 July 2022 restated	1,155,856	28,475	-	(35,469)	(581,641)	567,221
Total comprehensive income for the period						
Profit for the period	-	-	-	-	2,669	2,669
<i>Other comprehensive income</i>						
Foreign currency translation differences	-	-	30	-	-	30
Total comprehensive income for the period	-	-	30	-	2,669	2,699
Transactions with owners, recorded directly in equity						
<i>Contributions by and distributions to owners</i>						
On market share buy-back	(6,400)	-	-	-	-	(6,400)
Dividend paid	-	-	-	-	(6,538)	(6,538)
Shares vested during the period	-	(3,351)	-	3,351	-	-
Share-based payment transactions	-	864	-	-	-	864
Total contributions by and distributions to owners	(6,400)	(2,487)	-	3,351	(6,538)	(12,074)
Balance at 31 December 2022 restated	1,149,456	25,988	30	(32,118)	(585,510)	557,846

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 27.

Emeco Holdings Limited and its Controlled Entities
Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2023

	31 December 2023 \$'000	31 December 2022 \$'000
Cash flows from operating activities		
Cash receipts from customers	493,606	442,498
Cash paid to suppliers and employees	(365,255)	(358,164)
Cash generated from operations	128,351	84,334
Finance income received	554	168
Finance costs paid	(13,241)	(12,377)
Net cash from operating activities	115,664	72,125
Cash flows from investing activities		
Proceeds on disposal of non-current assets	6,852	1,256
Payment for property, plant and equipment	(106,678)	(74,475)
Net cash used in investing activities	(99,826)	(73,219)
Cash flows from financing activities		
Dividends paid to Company's shareholders	(6,488)	(6,538)
Payments for shares bought back	(414)	(6,400)
Proceeds from borrowings	65,000	64,869
Repayment of borrowings	(45,608)	(25,000)
Repayment of lease liabilities	(10,550)	(9,916)
Net cash from financing activities	1,940	17,015
Net increase in cash and cash equivalents	17,778	15,921
Cash and cash equivalents at beginning of the period	46,673	60,158
Effects of exchange rate fluctuations on cash held	-	4
Cash and cash equivalents at the end of the period	64,451	76,083

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to the financial report set out on pages 15 to 27.

Emeco Holdings Limited and its Controlled Entities

Notes to the Condensed Consolidated Interim Financial Report

For the half year ended 31 December 2023

1. Reporting entity

Emeco Holdings Limited (**Company**) is a for profit company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2023 comprise the Company and its subsidiaries (together referred to as the '**Group**'). The Group is primarily involved in the provision of safe, reliable and maintained earthmoving equipment rental solutions and mining services solutions to its customers as well as the maintenance and remanufacturing of major components of heavy earthmoving equipment.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2023 is available on the Company's web site at www.emecogroup.com.

2. Basis of preparation

(a) Statement of compliance

The condensed consolidated interim financial report has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*.

It does not include all of the information required for the full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2023.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the Company's 2023 annual financial report for the financial year ended 30 June 2023. The accounting policies are consistent with Australian Accounting Standards.

This condensed consolidated interim financial report was approved by the board of directors on 19 February 2024.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(b) Comparative financial information – restatement and reclassification

In the Consolidated Statement of Changes in Equity, the Group has restated the opening balance of foreign currency translation reserves at 1 July 2022 of \$14,579,000 to accumulated losses, relating to foreign operations discontinued in prior periods with no likelihood of recommencing in the future.

Emeco Holdings Limited and its Controlled Entities

Notes to the Condensed Consolidated Interim Financial Report

For the half year ended 31 December 2023

3. Material accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2023. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Recognition of tax losses

In accordance with the Company's accounting policy for deferred taxes (refer note 3(q) of the Company's 30 June 2023 Financial Statements), a deferred tax asset is recognised for unused tax losses only if it is probable that future taxable profits will be available to utilise these losses. This includes estimates and judgements about future profitability and tax rates. Changes in these estimates and assumptions could impact on the amount and probability of unused tax losses and accordingly the recoverability of deferred tax assets.

Due to the recent history of operating profits, the Company brought to account all previously unrecognised Australian tax losses as a deferred tax asset, totalling \$93,541,000 at 30 June 2023. A taxable loss was generated in the current period increasing the recognised losses to \$95,451,000 at 31 December 2023.

At 30 June 2023, the Company recognised its full historical Australian tax losses which was offset by deferred tax liabilities, resulting in a net deferred tax liability of \$12,846,000. At 31 December 2023, the Company has recognised the full deferred tax asset of \$95,451,000 associated with its carried forward tax losses, which are offset by other temporary differences, being predominantly deferred tax liabilities, resulting in a net deferred tax liability of \$21,171,000 at 31 December 2023. The Company expects to fully utilise carried forward losses as the Group is expected to continue to generate taxable profits.

Impairment of assets

On 19 December 2023, the Group executed an agreement to sell Pit N Portal's contracting business, effective 1 January 2024, which included certain mining contracts, assets, inventory and the transfer of employee liabilities. Emeco retains the majority of the underground mining fleet in order to continue to provide rental services. This transaction was completed on 2 February 2024, and assets considered surplus to the requirements of the ongoing business were impaired during the reporting period, resulting in total impairments of \$15,656,000 recognised in the Pit N Portal segment.

	31 December 2023 \$'000	30 June 2023 \$'000
Impairment of assets		
Property, plant and equipment - Rental	288	203
Property, plant and equipment - Pit N Portal	13,582	-
Inventory - Pit N Portal	2,074	-
Total impairment	15,944	203

Emeco Holdings Limited and its Controlled Entities

Notes to the Condensed Consolidated Interim Financial Report

For the half year ended 31 December 2023

3. Material accounting policies (continued)

Impairment of assets (continued)

The Group performs annual impairment testing at 30 June, however also performs an assessment at the end of each reporting period as to whether there are any indicators that its cash generating units (CGU's) may be impaired. In making such assessment at 31 December 2023, the Group has considered the following factors as indicating its CGU's may be impaired:

- The carrying amount of the net assets of the Group are more than its market capitalisation at 31 December 2023; and
- The Pit N Portal business will derive its future cashflows only from underground equipment rental, following the reset of the business including the sale of its contracting business to Macmahon Holdings Limited.

As a result of the above indicators, the Group has performed impairment testing by comparing each CGU's recoverable amount to its carrying amount. The accounting policies applied by the Group in relation to the preparation of the impairment models are the same as those applied in its Annual Financial Report for the year ended 30 June 2023. Key assumptions are consistent with what was applied in the June 2023 assessment, however, have been updated to consider the revised forecast of all CGU's and the current discount rate. The post-tax discount rate used in the calculations is 9.8% (June 2023: 9.8%). The recoverable amounts of all of the Group's CGUs continued to exceed their carrying amounts at 31 December 2023. The recoverability of the Rental and Workshop CGUs continued to exceed their carrying amounts with reasonably possible changes to key assumptions.

The recoverability of the Pit N Portal CGU is sensitive to reasonably possible changes in key assumptions. Specifically, the recoverability of the CGU is dependent on maintaining equipment utilisation at levels applied in the revised forecast and EBITDA within the underground rental business on a sustained basis and in the terminal year.

Key judgement - Allowance for expected credit losses

The Group uses a combination of historical losses recognised for receivables and takes a view on the future economic conditions that are representative of those expected to exist, in assessing the general allowance for expected credit losses. Specifically, the Group has considered the likelihood of any potential and significant decreases to commodity prices on its customers' operations and therefore their potential capacity to repay amounts owing to the Group. As a result, due to the high level of judgement required, the ultimate cash received may differ to the amount recorded. The Group also reviews specific customer receivables deemed a higher recoverability risk.

Emeco Holdings Limited and its Controlled Entities

Notes to the Condensed Consolidated Interim Financial Report

For the half year ended 31 December 2023

4. Segment reporting

The Group has three (December 2022: three) reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services and are managed separately because they require different operational strategies for each product line and geographic region. For each of the strategic business units, the managing director and board of directors review internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

Rental	Provides a wide range of earthmoving equipment rental solutions to customers in Australia. Additional technology platforms have been developed to enable customers to improve earthmoving efficiencies of their rental machines.
Workshops	Provides maintenance and component rebuild services to customers in Australia.
Pit N Portal	Provided a range of mining services solutions and associated services to customers in Australia. Subsequent to period-end, this segment changed its name to Emeco Underground. Refer to note 14 for further information.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before interest and income tax as is included in the internal management reports that are reviewed by the Group's managing director and board of directors. Segment earnings before interest, income tax, depreciation, amortisation and impairment is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Emeco Holdings Limited and its Controlled Entities

Notes to the Condensed Consolidated Interim Financial Report

For the half year ended 31 December 2023

4. Segment reporting (continued)

Information about reportable segments

	Rental \$'000	Workshops \$'000	Pit N Portal \$'000	Total \$'000
Period ended 31 December 2023				
Segment revenue	259,839	132,055	92,030	483,924
Intersegment revenue	-	(49,399)	-	(49,399)
Revenue from external customers	259,839	82,656	92,030	434,525
Other income	614	-	(96)	518
Segment earnings before interest, tax, depreciation, amortisation and impairment	139,917	8,552	12,118	160,587
Impairment of tangible assets	(288)	-	(15,656)	(15,944)
Depreciation and amortisation	(64,238)	(2,847)	(8,370)	(75,455)
Segment result (EBIT)	75,391	5,705	(11,908)	69,188
Corporate overheads ⁽¹⁾				(28,206)
EBIT				40,982
Net finance income/(expense)				(13,085)
Net foreign exchange gain/(loss)				(168)
Net profit before tax				27,729
Tax expense				(8,325)
Net profit after tax				19,404
Total assets for reportable segments	846,488	70,096	137,078	1,053,662
Unallocated assets				75,470
Total Group assets				1,129,132
Net capital expenditure	88,860	1,161	9,805	99,826
Total liabilities for reportable segments	93,789	60,903	33,852	188,544
Unallocated liabilities				336,693
Total Group liabilities				525,237
	Rental \$'000	Workshops \$'000	Pit N Portal \$'000	Total \$'000
Period ended 31 December 2022				
Segment revenue	238,568	111,886	127,519	477,973
Intersegment revenue	(4,819)	(43,617)	-	(48,436)
Revenue from external customers	233,749	68,269	127,519	429,537
Other income	1,568	-	1,345	2,913
Segment earnings before interest, tax, depreciation, amortisation and impairment	123,447	4,571	(19,488)	108,530
Impairment of tangible assets	(203)	-	-	(203)
Depreciation and amortisation	(59,540)	(2,084)	(9,292)	(70,916)
Segment result (EBIT)	63,704	2,487	(28,780)	37,411
Corporate overheads ⁽¹⁾				(20,661)
EBIT				16,750
Net finance income/(expense)				(12,901)
Net foreign exchange gain/(loss)				(25)
Net profit before tax				3,824
Tax expense				(1,155)
Net profit after tax				2,669
Total assets for reportable segments	736,171	56,600	175,484	968,255
Unallocated assets				89,121
Total Group assets				1,057,376
Net capital expenditure	69,431	1,433	2,356	73,220
Total liabilities for reportable segments	84,006	51,091	36,223	171,320
Unallocated liabilities				328,210
Total Group liabilities				499,530

(1) Corporate overheads include \$0.9m (December 2022: \$1.8m) of depreciation and amortisation expense.

Emeco Holdings Limited and its Controlled Entities

Notes to the Condensed Consolidated Interim Financial Report

For the half year ended 31 December 2023

4. Segment reporting (continued)

Major customer

For the six months ended 31 December 2023 the Group had three (2022: three) major customers across the segments that represented \$161,580,000 (2022: \$131,660,000) of the Group's total revenues, as indicated below:

Segment	31 December 2023 \$'000	31 December 2022 \$'000
Australia – Rental	55,743	42,500
Australia – Workshops	46,637	41,454
Australia – Pit N Portal	59,200	47,706
Total	161,580	131,660

5. Key management personnel

On 3 August 2023, the Group announced material changes to the Managing Director & CEO's (Mr Testrow's) terms of employment, with effect from FY24. Further information is set out in note 34 of the annual financial report for the year ended 30 June 2023.

There were no other changes in key management personnel during the six months ended 31 December 2023, and arrangements with other key management have remained consistent since 30 June 2023.

6. Other current assets

The Group's other current assets are comprised of the following:

	31 December 2023 \$'000	30 June 2023 \$'000
Prepayments	9,785	4,703
Contract assets	19,540	12,187
Total	29,325	16,890

Emeco Holdings Limited and its Controlled Entities
Notes to the Condensed Consolidated Interim Financial Report

For the half year ended 31 December 2023

7. Pit N Portal – disposal of contracting business

On 19 December 2023, the Group executed a transaction with Macmahon Holdings to sell the Pit N Portal contracting business, effective 1 January 2024. This transaction was completed on 2 February 2024 and included the sale of certain mining contracts, inventory and other assets, as well as the transfer of employees and their employment related liabilities.

As at 31 December 2023, assets held for sale include property, plant and equipment of \$1,937,000 relating to the Rental segment, and \$10,489,000 relating to the Pit N Portal segment, which includes property, plant and equipment of \$6,455,000 sold to Macmahon subsequent to 31 December 2023, and \$4,034,000 of property, plant and equipment surplus to the rental needs of the Pit N Portal business. In addition to this, assets held for sale includes Pit N Portal inventory of \$5,494,000, which includes inventory of \$5,064,000 sold to Macmahon subsequent to 31 December 2023, and \$430,000 of inventory surplus to the rental needs of the Pit N Portal business. Pit N Portal leave liabilities of \$3,224,000, including on costs, were reclassified to liabilities held for sale, reflecting employee leave entitlements included in the transaction price.

	31 December 2023 \$'000	30 June 2023 \$'000
Assets classified as held for sale		
Property, plant and equipment – Rental	1,937	1,165
Property, plant and equipment - Pit N Portal	10,489	-
Inventory - Pit N Portal	5,494	-
Total assets classified as held for sale	17,920	1,165
	31 December 2023 \$'000	30 June 2023 \$'000
Liabilities classified as held for sale		
Leave entitlements - Pit N Portal	3,224	-
Total liabilities classified as held for sale	3,224	-

In exchange for Pit N Portal's contracting business, Emeco subsequently received approximately \$10.1 million of in-demand surface and underground mining equipment.

Emeco Holdings Limited and its Controlled Entities

Notes to the Condensed Consolidated Interim Financial Report

For the half year ended 31 December 2023

8. Equity

Dividends

Emeco announced a final fully franked dividend for the year ended 30 June 2023 of 1.25 cents per fully paid ordinary share totalling \$6,496,000, which was paid on 29 September 2023 (six months ended 31 December 2022: 1.25 cents per share).

Franking account

	31 December 2023 \$'000	30 June 2023 \$'000
Dividend franking account		
30% franking credits available to shareholders of Emeco Holdings Limited for subsequent financial years	69,488	72,268

The above available amounts are based on the balance of the dividend franking at 31 December 2023 adjusted for:

- (a) franking credits that will arise from the payment of current tax liabilities and recovery of current tax receivables;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at 31 December 2023;
- (c) franking credits that will arise from the receipt of dividends recognised as receivable by the tax consolidated group at 31 December 2023;
- (d) franking credits that the entity may be prevented from distributing in subsequent years; and
- (e) franking credits from acquired entities.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

In accordance with the tax consolidated legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of \$69,488,000 (30 June 2023: \$72,268,000) franking credits.

Emeco Holdings Limited and its Controlled Entities

Notes to the Condensed Consolidated Interim Financial Report

For the half year ended 31 December 2023

9. Interest bearing liabilities

	31 December 2023 \$'000	30 June 2023 \$'000
Current		
<i>Amortised cost</i>		
Loan Note Agreement – secured	20,000	-
Lease liabilities – secured	24,843	21,431
Financial liability – secured	1,217	1,217
Other financing	5,055	1,098
	51,115	23,746
Non-current		
<i>Amortised cost</i>		
AUD notes – secured	250,000	250,000
Lease liabilities – secured	53,865	49,290
Financial liability – secured	2,434	3,042
Debt raising costs	(2,878)	(3,431)
	303,421	298,901

The Group's finance costs comprise of the following:

	31 December 2023 \$'000	31 December 2022 \$'000
Finance costs		
Interest expense	12,751	11,393
Amortisation of debt establishment costs	553	824
Other facility costs	458	852
Total	13,762	13,069

Secured notes

The A\$250,000,000 notes have a fixed coupon of 6.25%, payable semi-annually, and have a maturity date of 10 July 2026. These notes include restrictions on issuing additional debt if leverage (net debt divided by Operating EBITDA) is greater than 1.75x and shareholder distributions if leverage is greater than 2.0x. The notes include a call premium of 3.125%, payable if redeemed prior to 10 July 2024 and 1.5625% is payable on the notes if the notes are redeemed prior to 10 July 2025. No call premium is payable after this date. There are no restrictions on capital expenditure. The effective interest rate of these notes is 6.76%, which is inclusive of the capitalised borrowing costs and annual coupon.

Emeco Holdings Limited and its Controlled Entities

Notes to the Condensed Consolidated Interim Financial Report

For the half year ended 31 December 2023

9. Interest bearing liabilities (continued)

Revolving credit facility

The A\$100,000,000 Revolving Credit Facility ("RCF") includes cash available of A\$95,000,000 under a Loan Note Agreement and a bank guarantee facility of A\$5,000,000. The facility expires in December 2025, with an option to extend for a further two years to December 2027 at Emeco's election. All other terms of the RCF remain unchanged. At 31 December 2023 the Group had drawn A\$20,000,000 of the RCF leaving an undrawn facility of A\$75,000,000 (30 June 2023: Nil drawn of A\$95,000,000). At 31 December 2023, the Group utilised A\$3,509,000 of the A\$5,000,000 bank guarantee facility (30 June 2023: A\$3,509,000).

Lease liabilities

During the period, additions to lease liabilities were \$19,475,000 (30 June 2023: A\$21,431,000) with \$1,449,000 leases terminated during the period (31 December 2022: nil). Lease payments net of interest of \$10,550,000 were made during the period (31 December 2022: \$9,916,000). There were remeasurements of lease liabilities which resulted in a gain on lease modification of \$1,226,000 recognised in the Interim Statement of Profit or Loss and Other Comprehensive Income (31 December 2022: nil).

Financial liability

Emeco recognised a current financial liability of \$1,217,000 (30 June 2023: \$1,217,000) and non-current financial liability of \$2,434,000 (30 June 2023: \$3,042,000) relating to the sale and leaseback of equipment.

Working capital facility

The Group has a credit card facility with a limit of A\$200,000 (30 June 2023: A\$150,000). The facility is secured via a term deposit.

Other financing

The Group has financed its annual insurance premium of A\$5,055,000 (30 June 2023: A\$1,098,000). Repayments on the facility commence in January 2024 and complete in September 2024.

To manage the cash flow conversion cycle on goods and services procured by the Group, and to ensure that suppliers receive payment in a timely manner, the Group offers some suppliers supply chain financing. The Group's supply chain financing facilities totalled \$31,707,000 as at 31 December 2023 (30 June 2023: \$25,517,000), and the available limit on these facilities was increased from \$25,500,000 at 30 June 2023 to \$35,500,000 at 31 December 2023.

Emeco Holdings Limited and its Controlled Entities

Notes to the Condensed Consolidated Interim Financial Report

For the half year ended 31 December 2023

10. Capital and reserves

	31 December 2023 \$'000	30 June 2023 \$'000
Share capital		
518,374,757 (June 2023: 519,002,615) ordinary shares, fully paid	1,224,727	1,225,141
Acquisition reserve	(75,887)	(75,887)
	1,148,840	1,149,254

Movements in ordinary share capital

Details	Date	Shares	Issue price (\$)	\$'000
Balance	1 July 2023	519,002,615		1,225,141
On market share buy-back ⁽¹⁾	22 December 2023	(627,858)	0.66	(414)
Balance	31 December 2023	518,374,757		1,224,727
Less: Treasury shares		(1,576,303)		
Issued capital		516,798,454		

Note:

⁽¹⁾ During the period ending 31 December 2023, 627,858 shares were purchased at an average share price of \$0.66 totalling \$414,000 (31 December 2022: 7,663,420 shares were purchased at an average share price of \$0.84 totalling \$6,400,000).

11. Contingent liabilities and commitments

The Group has guaranteed the repayments of \$4,003,000 (30 June 2023: \$842,000) in relation to short-term and low-value leases not classified as lease liabilities in note 9. Additionally, the Group has capital commitments at 31 December 2023 of approximately \$9,079,000 for purchases of fixed assets (30 June 2023: \$18,700,000).

The Group has provided bank guarantees in the amount of \$3,509,000 (30 June 2023: \$3,509,000) in relation to obligations under operating leases and rental premises.

12. Related party transactions

At the Company's AGM on 17 November 2022, the provision of a zero-interest loan by a subsidiary of the Company to Mr Ian Testrow (Managing Director and Chief Executive Officer) was approved by Shareholders. The principal amount of the loan of \$4,948,640.55 was drawn on 17 February 2023 and included within other financial assets on the Consolidated Statement of Financial Position.

A non-monetary deferred employee benefits expense of \$159,240 has been recognised in the Statement of Profit or Loss or Other Comprehensive Income for the period ended 31 December 2023, reflecting the zero-interest component of the loan provided to Mr Testrow. The estimated FBT liability associated with the zero-interest component of the unsecured loan provided to Mr Testrow for the period ended 31 December 2023 is \$141,213, resulting in a total zero-interest loan benefit of \$300,453. The non-monetary benefit and FBT liability has been determined using an assumed interest rate of 7.77%, based on the Australian Taxation Office benchmark interest rate for the FBT year ending 31 March 2024.

Emeco Holdings Limited and its Controlled Entities

Notes to the Condensed Consolidated Interim Financial Report

For the half year ended 31 December 2023

12. Related party transactions (continued)

On 3 August 2023, the Group announced material changes to Mr Testrow's terms of employment, resulting in the loan attracting an interest rate of 12% per annum, only in the event Mr Testrow resigns and his employment ends before 30 June 2027 (calculated from the date the loan was drawn until repayment date). The loan is also repayable on the date Mr Testrow's employment ends (previously three months after employment ends).

The loan was drawn to fund tax liabilities arising from the vesting of Management Incentive Plan ("MIP17") Shares granted in March 2017. The intention of the zero-interest loan is to incentivise Mr Testrow to retain his equity investment in the Company.

13. Trade and other receivables

	31 December 2023 \$'000	30 June 2023 \$'000
Current		
Trade receivables	99,726	112,262
Accrued revenue	29,434	33,862
Less: Allowance for expected credit losses	(190)	(190)
	128,970	145,934
GST receivable	-	511
Other receivables	10,005	11,058
Deferred employee benefits expense	262	262
	139,237	157,765

The movement in the allowance for expected credit losses ("ECL") in respect of trade receivables and accrued revenue during the period was as follows:

	31 December 2023 \$'000	30 June 2023 \$'000
Opening loss allowance	190	189
Collective ECL recognised during the period ⁽¹⁾	-	1
Loss allowance on trade receivables arising during the period ⁽²⁾	-	23,095
Loss allowance on trade receivables written off during the year	-	(23,013)
Loss allowance on trade receivables reversed during the period ⁽²⁾	-	(82)
Closing loss allowance	190	190

Notes:

⁽¹⁾ The collective ECL is calculated using a combination of historical losses and economic conditions that are representative of those expected to exist during the life of the receivable. This is based on historical loss rates, ageing of debtors and economic factors that include commodity prices. The Group considers blue chip and insured customers as no material risk. The Group also reviews specific customer receivables deemed a higher recoverability risk (see below).

⁽²⁾ For the half year ended 31 December 2022, the Group created a specific allowance of \$23,095,000 for amounts owing to Pit N Portal for contractual services provided to a customer. At 30 June 2023, amounts of \$23,013,000 were written off in respect of the provision.

Emeco Holdings Limited and its Controlled Entities

Notes to the Condensed Consolidated Interim Financial Report

For the half year ended 31 December 2023

14. Subsequent events

On 2 February 2024, Emeco completed the sale of its Pit N Portal contracting business to Macmahon for consideration of approximately \$10.1 million of in-demand surface and underground mining equipment. Restructuring costs related to the transaction of \$1.2 million have been recorded in “other expenses” in the Statement of Profit or Loss or Other Comprehensive Income for the period ended 31 December 2023. Refer to note 7 for further information.

On 19 February 2024, the board elected to suspend the Group’s capital management programme, to redirect capital allocations for share buybacks and dividends towards reducing financing requirements. The Company will develop and communicate an updated capital management strategy before year end.

Directors' Declaration

In the opinion of the directors of Emeco Holdings Limited (Company):

1. the financial report and notes, set out on pages 10 to 27, are in accordance with the *Corporations Act 2001*, including:
 - (a) giving a true and fair view of the financial position of the Group as at 31 December 2023 and of its performance for the half year ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth on 19th day of February 2024

Signed in accordance with a resolution of the directors:



Ian Testrow
Managing Director

Independent Auditor's Review Report to the members of Emeco Holdings Limited

Conclusion

We have reviewed the half-year financial report of Emeco Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2023, and the condensed consolidated interim statement of profit or loss and other comprehensive income, the condensed consolidated interim statement of cash flows and the condensed consolidated interim statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 10 to 28.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



DELOITTE TOUCHE TOHMATSU



A T Richards

Partner

Chartered Accountants

Perth, 19 February 2024

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