

ASX ANNOUNCEMENT: 26 August 2010**MD & CEO and CFO on FY10 Results
& Outlook**

Open Briefing with MD & CEO Keith Gordon and
CFO Stephen Gobby

Emeco Holdings Limited
Level 3, 71 Walters Drive,
Osborne Park, WA 6017

In this Open Briefing[®], MD & CEO Keith Gordon and CFO Stephen Gobby discuss

- FY2011 performance outlook and earnings drivers
- ROC growth trajectory and opportunities
- Restructured business objectives and future prospects

Open Briefing interview:**openbriefing.com**

Emeco Holdings Limited (ASX code: EHL) has reported net profit after tax (before significant items) of \$41.1 million for the year ended 30 June, compared with \$57.7 million for the previous year. Operating EBITDA was \$190.4 million, down 10 percent; however the second half saw an improvement, with EBITDA of \$107.9 million, up 31 percent. What were the key drivers of the second half recovery and how indicative is the second half to prospective performance in the current year ending June 2011?

MD & CEO Keith Gordon

I will address the drivers of performance in second half 2010 and then provide some comments on FY2011.

The first point is that when looking at the year on year comparison is that the GFC severely impacted both the second half of 2009 and the first half of 2010. The main drivers of the recovery in the second half of 2010 were that we saw increasing production volumes across our core mining geographies (coal market, gold and iron ore) particularly in Queensland, Western Australia and Canada. We also saw a level of confidence returning to customers who had previously exercised caution during a period of significant uncertainty. Lastly, the flexibility of Emeco's rental offering was highly valued by our customers as they moved back into operations.

The second half numbers are a pretty good reflection of run rate for FY2011, particularly given utilisation was still improving over the second half of FY2010. While this suggests some further upside, there are a couple of items that will influence the result in 2011.

First, a few projects are coming to the end of their contract, so there is some risk of delays in redeploying these fleets into new contracts. The second factor is that we will be refinancing our debt in FY2011 and as a result we are expecting to pay a higher debt margin which will push up our borrowing costs. There is always of course the risk of bad weather affecting mining operations and this can flow through to our business as well.

openbriefing.com

Net operating cash flow was \$145.1 million, down 14 percent from the previous year. Free cash flow, after net capex, was \$37.5 million, down from \$73.7 million. What is the minimum level for capex to sustain the business going forward and what is the expected trend in cash flow in the current year?

CFO Stephen Gobby

Firstly, just looking at the cash flow of the business in the financial year just gone, operating cash flow was down in line with operating earnings due to lower utilisation rates across the business. There are also some other factors that have influenced free cash flow during the year. Most notably, we made a significant investment of some 85 million dollars in 39 large mining assets - comprising 190 and 240 tonne dump trucks and one large excavator. These are an integral part of our longer term fleet strategy and are proving to be a sound investment at this stage.

In addition to that, we also made some significant progress around disposal of non-core assets, where we realised approximately 46 million dollars of disposal proceeds. This was largely generated through our asset disposal programs in Canada, US and Europe.

With respect to the cash flow outlook in FY2011, we expect an improvement in underlying earnings which should drive higher operating cash flow. We are also targeting the release of approximately 60 million dollars of capital from the Victorian Rental and Australian sales businesses. In terms of sustaining capex we expect capex to trend just below depreciation over the next twelve months. With respect to growth capital that is something we will continue to monitor as opportunities present themselves.

openbriefing.com

Net debt at 30 June 2010 was \$300.2 million, down from \$331.3 million a year earlier. Gearing was 48 percent, unchanged. What are your gearing targets this year? Are you confident future cash flows can meet your debt reduction strategy?

CFO Stephen Gobby

Our debt levels reduced by \$31 million over the last twelve months. From the starting point of 1 July 2009 though, our debt actually increased to around \$350 million dollars at 31st December 2009 and the pleasing result is we have been able to reduce that back down \$300 million dollars in just six months. The peak in that debt number in December was due to those strategic large truck investments I mentioned earlier, however strong cash flow generation from the business has enabled us to bring our debt back down to a level that we are comfortable with.

Our primary gearing metric is debt to EBITDA and our targeted range is between 1.5 and 2 times. At December 31 2009, we were at 2.6 times debt to EBITDA. Through our focus on managing asset disposals, our disciplined approach to capex and improving earnings we have brought gearing down to 1.6 times as at 30 June 2010.

With debt at a comfortable level and a reasonably positive outlook on cash flow, we now have significant flexibility to pursue a number of options. One is to further pay down debt; however we don't see that as a priority given we are now back well within our targeting gearing range. The other is to reinvest our free cash flow back into the business to grow organically over the next couple of years. The final option is to pursue value accretive capital management strategies. As always, we will pursue the option that creates the most value for our shareholders.

openbriefing.com

EBIT return on capital was 8.3 percent, down from 9.4 percent. How is the new strategy announced in July expected to improve ROC? What is your hurdle rate for any new capital expenditure and can ROC return to its historical levels in the nearer term?

MD & CEO Keith Gordon

Clearly the group ROC we have seen in the last couple of years is below acceptable levels. In the last couple of years, the group's returns have been dampened by poor utilisation resulting from the drop in activity we saw during the GFC. More notable is the fact that capital had been invested in some businesses that did not have the right market position to withstand the severe downturn that played out. These are the businesses that we are exiting as a result of our strategic review. However, if you consider incremental returns from capex investments in core businesses over time, we have managed to achieve returns above our cost of capital on those incremental investments.

There are many opportunities to improve ROC across the business by optimising our fleet to ensure we achieve more consistent utilisation across the cycle. This will lead to and investing capex into assets which will return a premium above our WACC.

In the medium term, we will be exploring growth opportunities in related products and services, as well as other regions. Part of this strategy will be to leverage our capital base and our capabilities to deliver additional earnings and ultimately increase the group ROC. We are confident that the short-term and longer term strategies will restore ROC to historical levels and return a premium above our WACC, which is currently sitting between 10-12 percent on a post tax basis.

openbriefing.com

Part of your strategy is to transition to a larger capacity fleet, particularly in mining equipment, in response to customer demands. What has been the progress to date and, given the level of investment required, how will this change in strategic focus and reconfiguration deliver the improved returns you are seeking?

MD & CEO Keith Gordon

The improvement in returns is really two-fold. Firstly, the larger equipment we are talking about - the 190 to 240 tonne trucks and the excavators, have a greater propensity to be involved in the production phase of a mining operation. The production phase generally operates on a 24-7 basis giving us a higher number of operating hours per month and therefore greater revenue. The higher intensity in utilisation of this capital translates into a higher EBIT and a higher ROC.

Secondly, we have analysed the utilisation of different asset classes over the cycle and identified that the production application in which the larger assets are used is more stable through the cycle, particularly for the low cost producers in our core markets in Australia, Indonesia and Canada. The other positive dynamic for the larger equipment is longer lead times on delivery of new equipment, which creates a natural demand level which supports the rental model. In most instances, this results in both Emeco and our customer agreeing to longer tenure contracts to provide certainty for both parties. This all translates into higher average utilisation across the cycle and less time lost in transporting and redeploying the equipment into the next opportunity.

On a like for like basis, returns per dollar of capital invested in large and small mining equipments do not differ materially. It really is the quantum of hours and the consistency of utilisation which drive higher returns.

openbriefing.com

Emeco has chosen to focus on its mining services business and exit civil construction. Does this mean group earnings will now be more vulnerable to the cyclicity of the global mining industry? How do the expected returns compare between your domestic and international businesses?

MD & CEO Keith Gordon

The civil construction sector has been highly cyclical and characterised by short life projects. Constantly moving equipment from job to job does not deliver acceptable returns. In addition, civil jobs are mostly single shift projects so we do not experience the high utilisation intensity that we achieve on our mining contracts.

I've touched on the demand trends of the large equipment across the cycle and we believe we will experience less volatility in the future than we did during the last downturn. In addition we are continuing to leverage our core competencies to offer additional services to our mining customers that we hope will become an integral part of their operation. For example maintenance services expertise and asset management services have been highly valued by our customers.

In terms of returns across our domestic and offshore businesses, we are seeing strong incremental returns in our Australian mining business. The Indonesian businesses have been acceptable, but we are working to push those returns higher. However, achieving acceptable returns in the Canadian business is a two to three-year project as we reposition the fleet to be primarily mining class assets. We are also pursuing a commodity diversification strategy which we expect to deliver more consistent utilisation over time. We are very confident that with the management team we have in place in Canada this challenge will be met.

openbriefing.com

Emeco's change in strategy will increase its leverage to majors in coal, iron ore and oil sands. Will the planned Mineral Resources Rent Tax in Australia have an impact on contract margins in coal and iron ore, the bulk commodities liable for the tax? Would this change your current business model or strategy?

MD & CEO Keith Gordon

We have been watching the mining tax debate very closely and anything that's of concern to our customers is also a concern to us.

However we do take the view that in the medium term there will be sufficient capital committed to mining projects in Australia to drive ongoing growth in volumes. Those volumes are a good proxy to the level of success we will see through our business model. The important thing for us is to ensure that we stay close to our customers and continue to offer flexible solutions for them, so regardless of the taxation regime, we remain an important component of their business.

openbriefing.com

The restructured North American division will focus on developing opportunities in the Canadian oil sands sector. How sensitive is the level of mining activity in oil sands to the oil price? Is this an acceptable risk to your business?

MD & CEO Keith Gordon

There's no doubt that activity in oil sands sector is influenced by the oil price. What we saw during the GFC was that production continued even though all mine development had stopped. Oil companies will continue production at the level required to keep their refineries operating, whereas significant moves in oil price can have a more significant impact on the mine infrastructure and mine development activity. Therefore, our strategy is to increase our exposure to the production activity rather than the mine development process. That's what we are intending to achieve through the reconfiguration of our fleet towards mining equipment in Canada.

In doing this, we believe we can reduce the utilisation volatility experienced in the Canadian business historically. Over and above this, we have dedicated senior business development resources in Canada to develop our business in other commodities in order to complement the business in oil sands and deliver a more diversified and stable earnings base.

openbriefing.com

Emeco has reinstated a dividend, announcing a fully franked final dividend of 2.0 cents per share, compared with 2.5 cents in the previous year. No interim dividend was paid (FY2009: 2.0 cents). What is the outlook for dividends and franking in the current year?

MD & CEO Keith Gordon

The dividend policy of the Board has been to distribute approximately 35 to 45 percent of annual NPAT to shareholders and to frank dividends to the fullest extent possible. In February 2010, the board resolved not to pay an interim dividend in order to preserve cash and maintain balance sheet flexibility. The Board stated that it will resume payment of dividends subject to the sustainability of the earnings recovery that materialised over the balance of financial year 2010.

The group's operating NPAT for FY2010 was \$41.1 million. This excludes the significant one-off impairment and restructuring charges and, given that they were largely non-cash items, has satisfied the board that the expected earnings recovery has materialised.

In considering an appropriate dividend, the Board also considered the extent of retained profits from franking credits and the role of operating cash flow in Emeco's balance sheet. Given these factors, the Board deemed it appropriate to recommence the company's dividend policy without amendment.

openbriefing.com

Following the restructure of its portfolio, where do you see the most attractive growth opportunities for Emeco?

MD & CEO Keith Gordon

We see excellent opportunities for incremental investments in our core businesses in Australia where we have operating leverage, in particular in coal in the eastern states and iron ore and gold in Western Australia. The strong demand for these commodities supports an ongoing demand for earth-moving equipment.

In Indonesia we see an opportunity for growth through our leverage to the thermal and coking coal sectors, both of which have very positive outlook. We see opportunities to target new customers in Indonesia and expand our business footprint to deliver solid returns.

The picture in Canada hasn't been as positive historically. However it is important to note that the business in Canada was largely a civil fleet providing support to infrastructure and construction works, and that work all stopped when the GFC hit. We are reconfiguring the Canadian business to a mining fleet, starting off with the acquisition of the fleet of 190 tonne trucks last year. We've since complemented and grown this fleet with a transfer of a number of mining assets from the US fleet.

Whilst we have had a strong focus on rationalising our underperforming businesses, we have not stopped looking for opportunities that would contribute profitably to our existing businesses.

openbriefing.com

Thank you Keith & Stephen

For more information about Emeco Holdings Limited, visit emecogroup.com or call Stephen Gobby, Chief Financial Officer, Emeco Group on +618 9420 0222

To read other Open Briefings, or to receive future Open Briefings by email, please visit openbriefing.com

DISCLAIMER: Orient Capital Pty Ltd has taken all reasonable care in publishing the information contained in this Open Briefing®; furthermore, the entirety of this Open Briefing® has been approved for release to the market by the participating company. It is information given in a summary form and does not purport to be complete. The information contained is not intended to be used as the basis for making any investment decision and you are solely responsible for any use you choose to make of the information. We strongly advise that you seek independent professional advice before making any investment decisions. Orient Capital Pty Ltd is not responsible for any consequences of the use you make of the information, including any loss or damage you or a third party might suffer as a result of that use.