Emeco

Earthmoving equipment solutions

Market release
15 November 2011

Managing Director's Address to the 2011 Annual General Meeting

The primary objective of the strategy I outlined in July last year was to improve returns and deliver value to shareholders. It is timely to reflect on the progress we have made over the last twelve months, the contributions of our people across the business, and the continued growth in activity in our core markets.

As such, before discussing our strategy and the current operating environment, I would like to spend some time reviewing our performance in the 2010/11 financial year.

Year in review

Some of the highlights of our performance were:

- Return On Capital (ROC) improved from 8.3% (FY10) to 11.3%;
- A 36% increase in Operating Net Profit After Tax (NPAT) to $56.0 million;
- Total dividends of 10 cents per share, fully franked, paid to shareholders;
- Our commitment to safety resulted in a reduction in the Lost Time Injury Frequency Rate (LTIFR) to 2.4 per million man hours;
- Completion of business restructure activities and focus on core mining regions;
- Fleet reconfigured towards large mining equipment and utilisation levels improved;
- Senior debt facilities were successfully refinanced; and
- The inclusion of our inaugural sustainability report in the 2011 annual report.

The combination of these actions saw Emeco's Total Shareholder Return (TSR) significantly outperform the ASX 200 index over the year which was a particularly pleasing result.

Over the twelve months we witnessed continued growth in activity across the resource sector globally. This translated into high demand for Emeco's equipment rental and maintenance services. We achieved strong fleet utilisation in the first half of the year, building on the momentum we experienced at the end of FY10, and while utilisation marginally declined in the fourth quarter due to some specific issues in Canada and Indonesia, the underlying fundamentals of our three markets remained strong.

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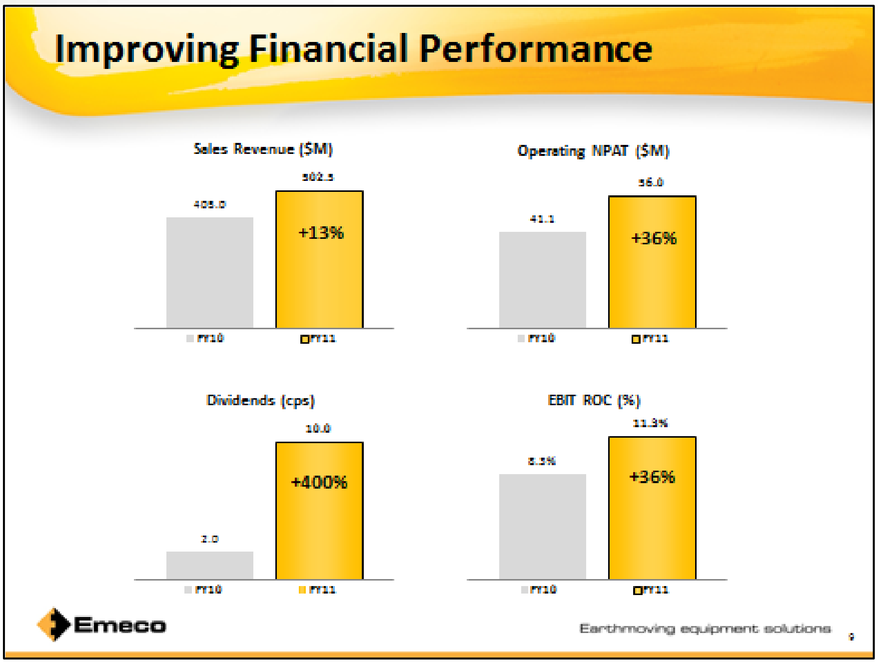


The performance of the Australian rental business reflected the well-documented strength of this country's resource industry. Emeco's significant exposure to coal, gold and iron ore underpinned average utilisation of 89% in FY11, up from 78% in FY10. While the wet weather events in Queensland somewhat impacted earnings, the overall performance of the Australian business in FY11 was encouraging and set a benchmark for our overseas businesses.

FY11 was the first year that the Canadian business had a full mining fleet aligned to the oilsands and coal markets following the restructuring of the fleet throughout FY10. Average utilisation recovered from 57% in FY10 to 78% in FY11, and return on funds employed improved from 2.8% to 11.3% over the past year. There is more work required to lift returns to acceptable levels in Canada, however the improved performance in FY11 and the early success with strategies being pursued to further develop the business, provides a solid foundation to drive performance higher over the coming years.

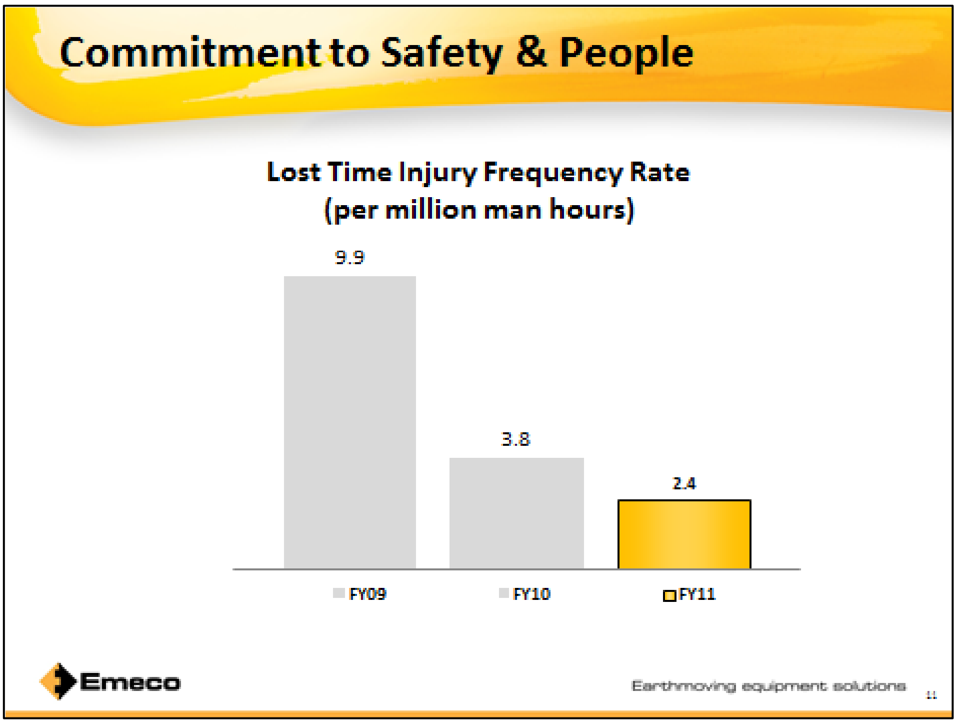
The performance of the Indonesian business in FY11 dampened an overall positive year for the Emeco Group. Despite utilisation remaining flat year on year at around 76%, Indonesia's earnings were significantly impacted by a debtor impairment related to our largest customer in the region. The residual costs of removing the fleet from site further reduced earnings in the second half. However, the outlook for Indonesia is positive with strong underlying volume growth, some new customers, and management in place to capitalise on these opportunities.

People and Safety

Safety remains a top priority for the Board and the Executive Leadership Team. Over the course of the year we continued to make progress in enhancing Emeco's safety management systems and capability. Pleasingly, we saw a reduction in the Lost Time Injury Frequency Rate to 2.4 per million man hours for the twelve months to 30 June 2011.

I would like to thank each and every one of our employees for maintaining their focus on safety, for their tireless efforts in delivering results aligned to our strategy and their contribution towards ensuring we have a safe and compliant workplace for Emeco people and those we work with.

In addition to executing business and fleet strategies during the year, we developed and established our global strategy for Emeco people. Based on feedback from our employees, we launched "Empower" (our people strategy), which aims to build a common understanding for all employees about our business goals, explain the role each individual has to play in the future success of the business, and to increase employee engagement. Empower is all about making Emeco a great place to work. As part of Empower, we have launched a number of improvement projects centred around training and development, career planning and performance management. We firmly believe that investment in our people is key to Emeco's future success.



Strategy

When we communicated our business strategy to the market in July 2010 we identified two areas of focus which would deliver value to shareholders. These were continual optimisation of the core business and disciplined investment into global mining markets to deliver sustainable growth.

Optimising the Core

The efforts and achievements of our people over the past twelve months were largely focussed on optimising the business. This included refocusing our operations on growing mining markets, liberating underperforming capital, capturing cost and operating efficiencies and enhancing our customer value proposition. We completed a broad range of restructuring activities including exiting our USA, Europe, and Victorian businesses, reconfiguring our fleet in Canada and Australia, improving internal processes, and developing and implementing our strategy for Emeco people.

These activities converted $56 million of underperforming capital into cash in FY11 which was in part returned to shareholders and in part reinvested in organic growth capital. In addition, we expect our continued focus on business improvement initiatives to deliver a range of benefits including cost efficiencies and reduced commercial and operating risk in the future.

Our primary objective in the first year of our strategy was to refocus the business strategically and financially. I'm satisfied that we met this objective in FY11 with Emeco now comprising three mining focused rental businesses in Australia, Indonesia and Canada, plus complimentary procurement, disposal and parts capabilities. With the restructure activities now complete, we are well positioned to focus on growth whilst continuing to look for ways to improve how we do business.

Sustainable Growth

We are currently observing strong market fundamentals for coal, iron ore and gold in Australia, coal in Indonesia and oilsands in Canada. This dynamic represents organic growth opportunities for Emeco and we continue to pursue project based opportunities that require fleets of equipment and on-site maintenance support and expertise.

Against this backdrop of strong mining activity, a review of our fleet strategy concluded that large mining equipment consistently delivered higher returns across the mining cycle. As a result, we have committed approximately $165 million to organic growth investment in large mining equipment in FY12. This investment will be deployed across Australia and Canada throughout the year and will be a key contributor to growth in both earnings and returns in FY12. Given this fleet will be delivered over FY12, we expect further improvements in earnings and return on capital from these investments to be realised in FY13 when we will realise a full year of earnings from the expanded capital base.

In addition to the organic growth in our existing markets, we have also been alert to opportunities in other growing mining geographies. In particular Emeco has identified the copper-rich mining region of Chile as having strong market fundamentals which are well suited to our strategy. To date we have carried out preliminary due diligence and are currently contemplating an organic entry into this market. We will continue to work on this opportunity over the coming months to ascertain whether acceptable and sustainable returns can be achieved.

The final decision of whether to enter the Chilean market will not be made until early 2012 with any entry being based on a low infrastructure and cost approach and starting with a fleet of large mining equipment aligned to Emeco's core markets. If we do proceed I anticipate the initial investment to be approximately $50 million in FY13.

Current Performance and Outlook

As outlined in the operating update released to the ASX today, Emeco entered FY12 with group fleet utilisation of 79% with it gradually increasing over the first four months of the year to the current level of 90%.

The Australian business is performing very strongly with 95% of the fleet (by value) being utilised by customers. We continue to experience high enquiry levels for equipment from our coal, iron ore and gold mining customers, however a consequence of these high activity levels in the resource sector is the associated cost inflation being experienced, in particular in the area of labour.

During the first quarter of FY12, the new management team in Indonesia has worked hard to finalise the repair and redeployment of the major fleet which was off-hired at the end of the FY11. While the lost revenue and high repair cost has limited the financial performance of the Indonesian business in the first quarter, I'm pleased to report that utilisation has improved to 82% over the past month which indicates a strong pick up in earnings from this business in the months ahead. We maintain a positive view on the medium term growth in mining volumes in Indonesia. Our view on volumes and the current strong enquiry levels has resulted in us recently committing to $30 million of new fleet to be delivered early in FY13 to capture the organic growth opportunities in the Indonesian market.

As outlined at the full year results in August the summer earthworks activity in the Canadian oilsands has been lower than last year, with all industry participants being affected during this period. Utilisation averaged 43% from July through to September, however it has picked up significantly in recent weeks, currently operating at 72% with an expectation for further increases over the coming month.

In addition to the strong utilisation of our existing fleet, we have recently begun taking delivery of the $165 million growth capital committed to in FY12 that I referred to earlier. Approximately $95 million will be deployed into the Australian business with all of this fleet working under contract by early in calendar year 2012. The remaining $70 million of growth capital for FY12 will be delivered into our Canadian business from December 2011 through to March of next year. Having committed to a significant capital investment earlier in the year, it is pleasing to be reporting that we largely have this new fleet under contract which will deliver growth in earnings and returns in the period ahead.

With the benefit of the organic growth capital coming into Australia and Canada in the second half plus the recovery in the Indonesian business and the increase in Canadian utilisation, we expect a material pick-up in earnings in the second half of the financial year as we take advantage of the strong demand conditions, such that the split of earnings over the year will be roughly 60% weighted to the second half.

Notwithstanding the uncertainty in global financial markets, we believe the underlying fundamentals for earthmoving volumes in our core mining markets remain intact which provides Emeco with a positive outlook over the medium term.

In closing, I look forward to a safe and successful year ahead for Emeco and I would like to thank our shareholders for their ongoing support.

Further enquiries can be directed to:

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About Emeco

Emeco is a leading global provider of heavy earthmoving equipment with offices in Australia, Indonesia and North America. Emeco has integrated rental, sales, parts, maintenance and procurement into a single business for high reliability, low-houred heavy earth moving equipment for the mining sector. Emeco is not aligned with any earthmoving equipment manufacturer and has a global fleet of approximately 1,000 machines including equipment manufactured by Caterpillar, Hitachi, Komatsu, Liebherr and Volvo.

Emeco's ordinary shares are traded on the Australian Stock Exchange under ASX code EHL.