Emeco Holdings Limited and its Controlled Entities

ABN 89 112 188 815

Interim Financial Report
For the half year ended 31 December 2019

Contents

Directors' Report
31 December 2019

The directors of Emeco Holdings Limited (**Company**) submit this report in respect of the half year financial period ended 31 December 2019 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:

Director
Non-executive
Peter Richards (Chair)
Peter Frank
Keith Skinner
Darren Yeates
Executive
Ian Testrow (Managing Director & Chief Executive Officer)

Mr Peter Frank stood for re-election as a non-executive director at the Company's annual general meeting held on 14 November 2019. Mr Frank's re-election was approved.

Financial performance
Emeco Holdings Limited and its Controlled Entities (**Group**) achieved a net profit after tax for the half year ended 31 December 2019 of $26,916,000 (2018: $11,972,000) with total revenue of $246,458,000 (2018: $224,258,000).

Dividends
No dividends have been declared or paid during 1H20 (1H19: Nil cents ordinary dividend per share).

Review of operations

A$ millions	Operating results [2]		Statutory results	
	1H20[4]	1H19	1H20	1H19
Revenue	**246.5**	**224.3**	**246.5**	**224.3**
EBITDA [3]	**119.1**	**102.8**	**113.1**	**96.0**
EBIT [3]	**67.5**	**60.0**	**52.8**	**52.2**
NPAT	**42.1**	**31.7**	**27.0**	**11.9**
EBITDA margin	**48.3%**	**45.8%**	**45.9%**	**42.8%**
EBIT margin	**27.4%**	**26.7%**	**21.4%**	**23.2%**

Note:
1. Significant items have been excluded from the statutory result. 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; EBIT: Earnings before interest and tax. These measures are non-IFRS.
4. 1H20 operating results has been adjusted to remove the impact of AASB 16, which became effective on 1 July 2019, to enable comparison to prior periods only and will not be adjusted for in subsequent periods.
5. Operating and Statutory results represent continuing operations only and not discontinued operations.

Operating results to statutory results reconciliation

A$ millions	Statutory	Tangible asset impairments	Redundancy and restructuring costs	Long-term incentive program	Acquisition costs	Ineffective hedge (gain)	Sub total	Impact of AASB 16 leases	Operating
EBITDA	**113.1**	**-**	**0.9**	**7.6**	**0.6**	**-**	**122.2**	**(3.1)**	**119.1**
EBIT	**52.8**	**5.9**	**0.9**	**7.6**	**0.6**	**-**	**67.8**	**(0.3)**	**67.5**
NPAT	**27.0**	**5.9**	**0.9**	**7.6**	**0.6**	**(0.5)**	**41.5**	**0.6**	**42.1**

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

- **Tangible asset impairments:** Net impairments totalling $5.9 million were recognised across the Australian rental business on assets transferred into non-current assets held for sale during the period.
- **Redundancy and restructuring costs:** One-off costs recognised for salary, wages and payroll tax in respect of acquisitions and restructures.
- **Acquisition costs:** acquisition costs incurred for potential acquisitions.
- **Long-term incentive program:** During 1H20 Emeco recognised $7.6 million of non-cash expenses relating to the employee long-term incentive plan predominantly associated with the shares issued in the March 2017 restructure.
- **Ineffective hedge (gain):** adjustment for ineffectiveness of hedge derivatives in line with AASB 13.
- **Impact of AASB 16:** 1H20 has been adjusted to remove the impact of AASB 16, which became effective on 1 July 2019, to enable comparison to prior periods only and will not be adjusted for in subsequent periods.

Directors' report (continued)
31 December 2019

Operating results

Operating net profit after tax (NPAT) for the half year ended 31 December 2019 (1H20) was $42.1 million, an increase of $10.4 million from 1H19.

Group operating revenue for 1H20 was $246.5 million, up from $224.3 million (9.9%) in 1H19.

Rental revenue was $193.6 million, up 6.1% from $182.4 million in 1H19 with improvement in operating utilisation from continued strength in the Eastern Region particularly metallurgical coal mining customers and improving margins on new projects in the Western Region as lower margin projects completed.

Maintenance services revenue was $50.4 million, up 21.7% from $41.4 million in 1H19 driven by improved external revenue from new contracts with blue chip mining companies.

Operating EBITDA was $119.1 million, up 15.9% from $102.8 million in 1H19. This drove an increase in Operating EBIT, which was $67.5 million, up from $60.0 million in 1H19.

Operating EBITDA and Operating EBIT margins were 48.3% and 27.4%, respectively, with increases due to the higher margins being generated on new Western Region projects, improving utilisation and rates, disciplined cost management and extensive use of the Force workshops to minimise the cost of maintaining rental equipment.

Operating cash flow

Operating cash flow before financing costs was $100.8 million in 1H20. This was driven by a strong operating EBITDA of $119.1 million, partially offset by $20.7 million in net working capital movement, mainly due to the final payment of the growth assets purchased in FY19, growth in the business and timing of cash payments.

To sustain Emeco's fleet, net capital expenditure of $52.0 million was incurred. This includes $49.1 million in net sustaining capital expenditure and $2.9m in capital inventory components.

Net cash financing costs of $24.2 million in 1H20 (includes $0.8m in interest associated with AASB 16 leases) reduced from $31.3m in 1H19 due to the full period impact of the US$33.8 million reduction in notes in October 2018, notes repayment fees and the US notes being 100% hedged to AUD.

Net Debt and leverage summary

$A Millions	31 Dec 2019	30 June 2019
Interest bearing liabilities (current and non-current)[1]		
Notes (USD denominated)[4]	441.7	441.7
Revolving credit facility	-	-
Other financing[5]	1.2	-
Lease liabilities[6]	19.5	21.9
Sub total Debt	462.4	463.6
Less cash	(53.3)	(36.2)
Net Debt	409.1	427.4
Leverage ratio	1.77x	2.00x
Additional Lease liabilities on transition to AASB 16[6]	32.9	n/a
Net Debt including additional lease liabilities on transition to AASB 16[6]	442.0	427.4

Note:
1. Figures based on facilities drawn – bank guarantees and borrowing costs are excluded
2. Leverage ratio – Net Debt / Operating EBITDA
3. Leverage ratio 31 December 2019 based on LTM Operating EBITDA
4. Notes (USD denominated) US$322.1 million converted at the effective AUD:USD hedged rate of 0.7293
5. Refer to note 10 in the financial report
6. Refer to note 11 in the financial report. In future periods these will be included within net debt and have only been excluded for comparative purposes

Emeco's leverage ratio has improved from 2.0x at 30 June 2019 to 1.77x at 31 December 2019. The Company expects leverage to continue to decrease in 2H20 as a result of increased earnings and cash flows.

Significant events occurring after half year end

On 8 January 2020 Emeco executed documentation with its existing syndicated lenders to increase its revolving credit facility from $65 million to $100 million. This increased facility limit will take effect on 5 February 2020. There have been no other changes to the terms of this facility.

On 29 January 2020, Emeco entered into an agreement to acquire Pit N Portal Mining Services Pty Ltd and Pit N Portal Equipment Hire Pty Ltd (combined 'Pit N Portal') for $72 million, subject to change for surplus working capital and other customary purchase price adjustments ('Acquisition'). The consideration for the acquisition consists of $62 million in cash and $10 million in Emeco shares to the vendors (issued at the Entitlement Offer price and will be escrowed for 12 months). The acquisition is subject to the successful completion of a capital raising and certain conditions precedent. The transaction is expected to be completed at the end of February 2020.

This acquisition is funded by both institutional and retail entitlement offers. On 31 January 2020 Emeco successfully completed the institutional component of its 1-for-10.29 pro- rata accelerated non-renounceable entitlement offer of new shares which was launched on Wednesday, 29 January 2020. This raised a total of approximately $55 million through the issue of approximately 27 million New Shares at $2.07 per New Share (Offer price) and was strongly supported by existing eligible institutional shareholders, who took up approximately 90% of their entitlements (with take up of 95% excluding EHL ESOP Trust).

On 14 February 2020, Emeco completed the retail component of the Entitlement Offer ('Retail Offer') at an offer price of $2.07 and offer ratio of 1 new share for every 10.29 existing shares. The Retail Offer was underwritten and will raise approximately $10 million.

Directors' report (continued)
31 December 2019

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 8 and forms part of the director's report to the half year ended 31 December 2019.

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 18 February 2020.

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

Ian Testrow
Managing Director
Perth 18 February 2020

Deloitte.

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The Board of Directors
Emeco Holdings Limited
Level 3, 71 Walters Drive
Osborne Park WA 6017

18 February 2020

Dear Board Members

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 financial statements of Emeco Holdings Limited for the half-year ended 31 December 2019, 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 sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
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 2019

	Note	31 December 2019 $'000	31 December 2018 $'000
Continuing operations			
Revenue from rental income		193,630	182,423
Revenue from the sale of machines and parts		2,455	470
Revenue from maintenance services		50,373	41,365
		246,458	224,258
Repairs and maintenance		(42,295)	(49,625)
Employee expenses		(22,291)	(20,558)
External maintenance services		(37,248)	(31,818)
Cartage and fuel		(9,245)	(5,956)
Hired in equipment and labour		(1,027)	(2,171)
Depreciation expense		(53,894)	(42,206)
		(166,000)	(152,334)
Other income		1,453	5,990
Other expenses		(22,157)	(23,860)
Impairment of tangible assets	6	(5,913)	(1,053)
Amortisation expense		(482)	(593)
Business acquisition expenses		(576)	(235)
Finance income		66	163
Finance costs		(25,865)	(29,095)
Net foreign exchange gain/(loss)		15	(11,379)
Profit before tax expense		26,999	11,862
Tax benefit/(expense)		-	-
Profit from continuing operations		26,999	11,862
Discontinued operations			
Profit/(loss) from discontinued operations (net of tax)	5	(83)	110
Profit/(loss) from discontinued operations		(83)	110
Profit for the period		26,916	11,972
Other comprehensive (loss)/income			
Items that are or may be reclassified to profit and loss:			
Foreign currency translation differences		(17)	(7,018)
Effective portion of changes in fair value of cash flow hedges (net of tax)		1,251	5,512
Total other comprehensive income for the period		1,234	(1,506)
Total comprehensive income for the period		28,150	10,466

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 14 to 25.

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 2019

	31 December 2019 $'000	31 December 2018 $'000
Profit attributable to:		
Owners of the Company	26,916	11,972
Profit for the period	26,916	11,972
Total comprehensive Profit attributable to:		
Owners of the Company	28,150	10,466
Total comprehensive Profit for the period	28,150	10,466

	31 December 2019 cents	Restated 31 December 2018 cents
Earnings per share:		
Basic profit per share	8.79	3.91
Diluted profit per share	8.13	3.65
Earnings per share from continuing operations:		
Basic profit per share	8.81	3.87
Diluted profit per share	8.15	3.61

Note that the earnings per share in December 2018 has been restated to take into consideration the share consolidation that occurred in November 2018. Please refer to note (2b)

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 14 to 25.

Emeco Holdings Limited and its Controlled Entities

Condensed Consolidated Interim Statement of Financial Position

as at 31 December 2019

	Note	31 December 2019 $'000	30 June 2019 $'000
Current assets			
Cash and cash equivalents		53,289	36,189
Trade and other receivables		87,876	87,259
Inventories and work in progress		9,210	6,345
Prepayments		3,683	4,719
Assets held for sale	6	-	2,906
Total current assets		154,058	137,418
Non-current assets			
Derivatives financial instruments	12	20,911	18,496
Intangible assets		10,023	9,076
Property, plant and equipment		576,721	579,668
Right of use Asset	7	32,323	-
Deferred tax assets		22,676	23,212
Investments designated at fair value through profit and loss		799	799
Total non-current assets		663,453	631,251
Total assets		817,511	768,669
Current liabilities			
Trade and other payables		63,454	83,714
Derivative financial instruments	12	11,128	11,465
Interest bearing liabilities	10	9,624	4,023
Provisions		6,441	7,072
Total current liabilities		90,647	106,274
Non-current liabilities			
Interest bearing liabilities	10	492,648	463,911
Provisions		345	406
Total non-current liabilities		492,993	464,317
Total liabilities		583,640	570,591
Net assets		233,871	198,078
Equity			
Share capital	14	931,199	931,199
Reserves		10,263	1,386
Retained losses		(707,591)	(734,507)
Total equity attributable to equity holders of the Company		233,871	198,078

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 14 to 25.

Emeco Holdings Limited and its Controlled Entities

Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2019

	Share capital $'000	Share based payment reserve $'000	Hedging reserve $'000	Foreign currency translation reserve $'000	Reserve for own shares $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2018	915,224	28,207	(4,644)	15,789	(33,026)	(768,068)	153,482
Adjustment to Retained Earnings as a result of applying AASB9 (Refer note 3)	-	-	-	-	-	(400)	(400)
Total comprehensive income for the period							
Profit or (loss)	-	-	-	-	-	11,972	11,972
Other comprehensive income							
Foreign currency translation differences	-	-	(7,181)	163	-	-	(7,018)
Effective portion of changes in fair value of flow hedge, net of tax	-	-	5,512	-	-	-	5,512
Total comprehensive income/(loss) for the period	-	-	(1,669)	163	-	11,972	10,466
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Shares issued during the period, net of issue	15,975	-	-	-	(15,975)	-	-
Share-based payment transactions	-	3,975	-	-	-	-	3,975
Total contributions by and distributions to owners	15,975	3,975	-	-	(15,975)	-	3,975
Balance at 31 December 2018	931,199	32,182	(6,313)	15,952	(49,001)	(756,496)	167,523

	Share capital $'000	Share based payment reserve $'000	Hedging reserve $'000	Foreign currency translation reserve $'000	Reserve for own shares $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2019	931,199	42,882	(7,444)	14,949	(49,001)	(734,507)	198,078
Adjustment to Retained Earnings as a result of applying AASB9 (Refer note 3)	-	-	-	-	-	-	-
Total comprehensive income for the period							
Profit or (loss)	-	-	-	-	-	26,916	26,916
Other comprehensive income							
Foreign currency translation differences	-	-	-	(17)	-	-	(17)
Effective portion of changes in fair value of	-	-	1,251	-	-	-	1,251
flow hedge, net of tax	-	-	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	-	1,251	(17)	-	26,916	28,150
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Shares issued during the period, net of issue	-	-	-	-	-	-	-
Shares vested during the period	-	(4,935)	-	-	4,935	-	-
Share-based payment transactions	-	7,643	-	-	-	-	7,643
Total contributions by and distributions to owners	-	2,708	-	-	4,935	-	7,643
Balance at 31 December 2019	931,199	45,590	(6,193)	14,932	(44,066)	(707,591)	233,871

The condensed consolidated interim statement of changes to equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 25.

Emeco Holdings Limited and its Controlled Entities

Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2019

	Note	31 December 2019 $'000	31 December 2018 $'000
Cash flows from operating activities			
Cash receipts from customers		273,462	236,014
Cash paid to suppliers and employees		(172,627)	(176,675)
Cash generated from operations		100,835	59,339
Finance income received		66	163
Finance expense paid		(24,237)	(31,510)
Net cash outflow from operating activities of discontinued operations	5	(7)	(77)
Net cash from operating activities		76,657	27,915
Cash flows from investing activities			
Proceeds on disposal of non-current assets		7,894	8,478
Payment for property, plant and equipment		(59,850)	(59,408)
Payment for business acquisition, net of cash acquired		-	(94,327)
Acquisition costs		(576)	(235)
Net cash used in investing activities		(52,532)	(145,492)
Cash flows from financing activities			
Payment of finance lease liabilities		(7,023)	(2,618)
Proceeds from borrowings	10	-	15,000
Repayment of borrowings		-	(47,516)
Debt establishment costs		-	(1,297)
Hedging Transactions		-	676
Net cash used in financing activities		(7,023)	(35,755)
Net increase/(decrease) in cash		17,102	(153,332)
Cash at beginning of the period		36,189	171,431
Cash acquired from acquired business		-	549
Effects of exchange rate fluctuations on cash held		(3)	(23)
Cash at the end of the financial period		53,288	18,625

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 14 to 25.

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 2019 comprise the Company and its subsidiaries (together referred to as the '**Group**'). The Group is primarily involved in the renting, maintaining and selling of heavy earthmoving equipment to customers in the mining industries.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2019 are 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*.

They do not include all of the information required for 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 2019.

This condensed consolidated interim financial report was approved by the board of directors on 18 February 2020.

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) Restatement of comparatives

Earnings per share was appropriately disclosed in the consolidated annual financial report of the Group for the year ended 30 June 2019. Earnings per share for the comparative period has been restated as the disclosure did not accurately reflect the effects of the share consolidation undertaken by Emeco on 27 November 2018 in accordance with AASB 133 Earning per share. The table below shows the previously disclosed and the restated amounts.

	Previously Disclosed cents	Restated cents
Earnings per share:		
Basic profit per share	0.47	3.91
Diluted profit per share	0.47	3.65
Earnings per share from continuing operations:		
Basic profit per share	0.47	3.87
Diluted profit per share	0.46	3.61

3. Significant 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 2019, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

AASB 16 Leases
The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

3. Significant accounting policies (continued)

AASB 16 Leases (continued)
The Group as lessee (continued)

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right- of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the ‘Property, Plant and Equipment’ policy (as outlined in the financial report for the annual reporting period.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line “Other expenses” in profit or loss.

As a practical expedient, AASB 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

On transition
The Group adopted AASB 16 on 1 July 2019 and applied the cumulative catch-up approach, electing to measure the right of use asset at an amount equal to the lease liability, and as a result:

- have not adjusted comparatives;
- there is impact on opening retained earnings;
- existing lease liabilities were carried forward; and
- lease liabilities were calculated for existing operating leases using the incremental borrowing rate at the date of transition.

3. Significant accounting policies (continued)

Recognition of tax losses

In accordance with the Company's accounting policy for deferred taxes (refer note 3(q) of the Company's FY19 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 losses, at 30 June 2019, the Company only brought to account $165,560,000 of previously unrecognised Australian tax losses as a deferred tax asset of $49,695,000 onto the balance sheet at this time. At 31 December 2019, the Company has applied $26,999,000 of previously unrecognised tax losses (as a deferred tax asset of $8,132,000) against the profits for the period reducing the effective tax rate to 0% for 1H20. Australian tax losses of $68,157,000 (gross) remain unrecognised and available to the Group.

4. Segment reporting

The Group has three (December 2018: four) 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:

Australian Rental	Provides a wide range of earthmoving equipment and maintenance services to customers in Australia.
Australian Workshops	Provides maintenance services to customers in Australia.
Chile (discontinued)	Provides earthmoving equipment and maintenance services to customers in Chile This segment was discontinued in June 2017.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before interest and income tax as 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 and amortisation 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.

4. Segment reporting (continued)

Information about reportable segments December 2019

	Australian Rental $'000	Australian Workshops $'000	Discontinued Chile $'000	Total $'000
Period ended 31 December 2019				
Segment revenue	210,912	82,588	1,148	294,648
Intersegment revenue	(916)	(46,127)	-	(47,043)
Revenue from external customers	**209,996**	**36,461**	**1,148**	**247,605**
Other income	1,393	-	-	1,393
Segment earnings before interest, tax, depreciation	**131,236**	**3,770**	**(83)**	**134,923**
Impairment of tangible assets	(5,913)	-	-	(5,913)
Depreciation and amortisation	(52,566)	(987)	-	(53,553)
Segment result (EBIT)	**72,757**	**2,783**	**(83)**	**75,457**
Corporate overheads				(22,757) [1]
EBIT				**52,700**
Finance income/(expense) (net)				(25,799)
Foreign exchange movements				15
Net profit before tax				**26,916**
Tax benefit				-
Total assets for reportable segments	**657,582**	**38,372**	**-**	**695,954**
Unallocated assets				121,557
Total Group assets				**817,511**
Net capital expenditure	**51,405**	**551**	**-**	**51,956**
Total liabilities for reportable segments	**48,722**	**25,202**	**-**	**73,924**
Unallocated liabilities				509,716
Total Group liabilities				**583,640**

(1) Note that Corporate Overheads includes $0.9m of Depreciation and amortisation.

Information about reportable segments December 2018

	Australian Rental $'000	Australian Workshops $'000	Discontinued Chile $'000	Total $'000
Period ended 31 December 2018				
Segment revenue	200,807	43,211	2,258	246,277
Intersegment revenue	(1,783)	(17,977)	-	(19,760)
Revenue from external customers	**199,024**	**25,234**	**2,258**	**226,516**
Other income	5,925	65	-	5,990
Segment earnings before interest, tax, depreciation	**113,151**	**2,577**	**110**	**115,838**
Impairment of tangible assets	(1,053)	-	-	(1,053)
Depreciation and amortisation	(41,791)	(290)	-	(42,081)
Segment result (EBIT)	**70,307**	**2,287**	**110**	**72,704**
Corporate overheads				(20,420)
EBIT				**52,284**
Finance income/(expense) (net)				(28,932)
Foreign exchange movements				(11,379)
Net profit before tax				**11,973**
Tax benefit				-
Total assets for reportable segments	**556,053**	**25,379**	**897**	**582,329**
Unallocated assets				123,179
Total Group assets				**705,508**
Net capital expenditure	**50,479**	**451**	**-**	**50,930**
Total liabilities for reportable segments	48,541	8,523	905	57,969
Unallocated liabilities				480,016
Total Group liabilities				**537,985**

4. Segment reporting (continued)

Major customer

For the six months ended 31 December 2019 the Group had three (2018: five) major customers across the segments that represented $87,920,000 (2018: $57,137,000) of the Group's total revenues, as indicated below:

Segment	31 December 2019 $'000	31 December 2018 $'000
Australia - Rental	63,764	47,410
Australia - Workshops	23,008	7,469
Chile	1,148	2,258
Total	87,920	57,137

5. Discontinued operations

In June 2017 the board resolved to exit the Chilean business after a strategic review of the operations. The board's decision to close this business was to address the underperformance in returns being generated combined with the unfavourable conditions in the Chilean mining industry.

	31 December 2019 $'000	31 December 2018 $'000
Losses of discontinued operations		
Profit/(losses) for the period	(83)	110

The loss from discontinued operation of $83,000 (six months ended 31 December 2018: $110,000 profit) is attributable entirely to the owners of the Company.

	31 December 2019 $'000	31 December 2018 $'000
Cash flows used in discontinued operation		
Net cash used in operating activities	(7)	(77)
Net cash used in discontinued operation	(7)	(77)

6. Disposal groups and non-current assets held for sale

At 31 December 2019, there were no Australian non-current assets held for sale (30 June 2019: $2,906,000). The non-current assets disposed of since 30 June 2019 relate to plant and equipment in Australia and were impaired by $5,913,000 (30 June 2019: $6,641,000) prior to sale.

	31 December 2019 $'000	30 June 2019 $'000
Assets classified as held for sale		
Property, plant and equipment - continuing operations	-	2,832
Property, plant and equipment - discontinuing operations	-	74
Net assets classified as held for sale	-	2,906

7. Right of use assets

As at 31 December 2019	Buildings $'000	Motor Vehicle $'000	Equipment $'000	Total $'000
Initial application as at 1 July 2019	34,519	2,737	-	37,256
Additions	599	1,437	2,070	4,106
Termination of lease	(6,253)	-	-	(6,253)
Total cost	28,865	4,174	2,070	35,109
Accumulated depreciation				
Accumulated depreciation	(2,223)	(448)	(115)	(2,786)
Total Accumulated Depreciation	(2,223)	(448)	(115)	(2,786)
Net Carrying amount	26,642	3,726	1,955	32,323

The group right of use assets relate to property, motor vehicles and heavy earth moving equipment. The average lease term is 4.97 years.

The corresponding lease liability analysis is presented in note 11.

	31 December 2019 $'000	31 December 2018 $'000
Amounts recognised in profit and loss		
Depreciation expense on right-of-use assets	2,786	-
Interest expense on lease liabilities	836	-
Expense relating to short term leases	1,059	-
Expense relating to leases of low value assets	78	-

8. Key management personnel

There were no changes in key management personnel during the six months ended 31 December 2019 and arrangements with key management have remained consistent since 30 June 2019.

On 29 January 2020 the Group announced it had appointed a new Chief Financial Officer, Mr Neil Siford and that Ms Justine Lea would take up the role of Chief Integration Officer effective 1 April 2020.

9. Equity

Dividends

No dividends were paid or declared since the end of FY19 (six months ended 31 December 2018: Nil cents per share).

Franking account

	31 December 2019 $'000	30 June 2019 $'000
Dividend franking account		
30% franking credits available to shareholders of Emeco Holdings Limited for subsequent financial years	77,222	77,222

The above available amounts are based on the balance of the dividend franking at 31 December 2019 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 2019;
(c) franking credits that will arise from the receipt of dividends recognised as receivable by the tax consolidated group at 31 December 2019;
(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.

The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by $Nil (30 June 2019: $Nil). In accordance with the tax consolidated legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of $77,222,000 (30 June 2019: $77,222,000) franking credits.

10. Interest bearing liabilities

Bank loans
On 7 September 2018, Emeco refinanced its bank loan to an A$65,000,000 facility, consisting of a revolving credit facility and bank guarantee facility that matures in September 2021, with an option to extend to September 2023.

At 31 December 2019 the Group had an undrawn revolving cash advance facility and utilised A$1,521,000 in bank guarantees.

Secured notes
As at 31 December 2019, Emeco had US$322,131,000 notes outstanding, which matures on 31 March 2022 and remain fully drawn until maturity. The nominal fixed interest rate is 9.25%.

Under the terms of the note agreement, the note holders hold a joint fixed and floating charge with the revolving credit facility bank over the assets and undertakings of the Group. The notes are measured at amortised cost. The notes have a limitation on net capital expenditure amended on 27 November 2019 to 135% of Emeco's depreciation expense (previously A$100,000,000 net capital expenditure for the 12 month period ended March 2020. Any unused limit could be carried forward for the subsequent 12 month period.)

The Group designated derivatives as hedge instruments against this underlying debt.

Working capital facility
The Group has a credit card facility with a limit of A$200,000. The facility is secured via term deposit.

Insurance financing
The Group has financed its annual insurance premium of A$2,708,000. The agreement has a term of 10 months completing April 2020.

	31 December 2019 $'000	30 June 2019 $'000
Current		
Amortised cost		
Other financing	1,168	-
Lease liabilities (note 11)	8,456	4,023
	9,624	4,023
Non-current		
Amortised costs		
USD notes - secured	459,793	459,334
Debt raising costs (revolving credit facility)	(745)	(959)
Debt raising costs (loan note agreement)	(10,345)	(12,350)
Lease liabilities (note 11)	43,945	17,886
	492,648	463,911

On initial application of AASB 16, lease liabilities increased by A$37,256,000 with a further A$4,379,000 entered into and A$6,488,000 terminated during the period. Lease payments net of interest of A$2,263,000 were made during the period.

11. Lease Liabilities

Consolidated	Future minimum lease payments Dec-19 $'000	Interest Dec-19 $'000	Present value of minimum lease payments Dec-19 $'000	Future minimum lease payments Jun-19 $'000	Interest Jun-19 $'000	Present value of minimum lease payments Jun-19 $'000
Lease						
Less than one year	4,293	(1,075)	3,218	5,196	(1,173)	4,023
Between one and five years	18,404	(2,105)	16,299	20,505	(2,619)	17,886
	22,697	(3,180)	19,517	25,701	(3,792)	21,909
Lease on application of AASB 16 Leases						
Less than one year	6,650	(1,412)	5,238	-	-	-
Between one and five years	31,426	(3,780)	27,646	-	-	-
	38,076	(5,192)	32,884	-	-	-
Total Lease Liability						
Less than one year	10,943	(2,487)	8,456	-	-	-
Between one and five years	49,830	(5,885)	43,945	-	-	-
	60,773	(8,372)	52,401	-	-	-

$19,517,000 of lease liabilities are secured by the assets leased.

The weighted average incremental borrowing rate applied to the lease liabilities at the date of initial application was 4.96%

The approximated lease liabilities disclosed in the June 19 annual report (A$36,713,000) varies from the initial application as at 1 July 2019 (A$37,256,000) by A$543,000. This variance is due to inclusion of additional motor vehicles.

12. Financial instruments

Hedging of fluctuations in interest rates and currency

As at 31 December 2019, the Group has US$322,131,000 of notes outstanding and has US$322,131,000 in cross currency interest rate swaps to fully hedge the principal and coupon to Australian dollars until maturity. As derivatives have been entered into, hedge accounting has been applied.

Due to the decrease of the AUD:USD foreign exchange rate between the inception of the hedge on 31 March 2017 and 31 December 2019, which has been partially offset against an increase in interest rates, a net hedge receivable of $9,783,000 (June 2019: $7,031,000) has been recognised at 31 December 2019.

	31 December 2019 $'000	30 June 2019 $'000
Derivative financial instrument - non-current assets	20,911	18,496
Derivative financial instruments - current liabilities	(11,128)	(11,465)
	9,783	7,031

13. Business Combinations

On 2 July 2018, Emeco Holdings Limited acquired 100% of the shares in Matilda Equipment Holdings Pty Ltd (Matilda) and its subsidiary Matilda Equipment Pty Ltd for total consideration of $94,327,000 settled by an upfront cash payment of $93,312,000 and an additional cash payment of $1,015,000 in relation to a working capital adjustment paid in October 2018.

Provisional values were disclosed in June 2018, however the values identified in relation to the acquisition are final as at reporting date 30 June 2019. Details of the acquisition are as follows:

	Matilda Equipment Pty Ltd	
	Final 2019 $'000	**Provisional 2018 $'000**
Cash assets	549	549
Trade and other receivables	6,849	6,861
Inventories	742	580
Prepayments	219	177
Plant and equipment	78,869	80,154
Goodwill/intangibles	8,807	9,477
Tax asset/(liability)	(165)	-
Trade and other payables	(1,384)	(3,344)
Provisions	(159)	(159)
Net assets /(liabilities) acquired	94,327	94,295
Acquisition date fair value of consideration transferred	94,327	94,295
Representing:		
Cash	93,312	93,312
Cash consideration paid in respect of working capital adjustment	1,015	983
Total	94,327	94,295
Acquisition costs expensed to profit or loss	2,160	1,924
Cash used to acquire the business, net of cash acquired:		
Acquisition date fair value of consideration transferred	94,327	94,295
Less: cash and cash equivalents	(549)	(549)
Net Cash paid	93,778	93,746

Impact of acquisitions on the results of the Group
The Group has fully integrated the acquisition of the business from the acquisition date and is therefore unable to accurately quantify the additional revenue and earnings contributed to the Group by the acquired business.

14. Capital and reserves

	31 December 2019 $'000	30 June 2019 $'000
Share capital		
323,212,432 (2018: 323,212,432) ordinary shares, fully paid	1,007,086	1,007,086
Acquisition reserve	(75,887)	(75,887)
	931,199	931,199

15. Contingent liabilities and commitments

The Group has guaranteed the repayments of $1,521,000 (30 June 2019: $1,744,000) in relation to obligations under rental premises.

16. Subsequent events

On 8 January 2020 Emeco executed documentation with its existing syndicated lenders to increase its revolving credit facility from $65 million to $100 million. This increased facility limit will take effect on 5 February 2020. There have been no other changes to the terms of this facility.

On 29 January 2020, Emeco entered into an agreement to acquire Pit N Portal Mining Services Pty Ltd and Pit N Portal Equipment Hire Pty Ltd (combined 'Pit N Portal') for $72 million, subject to change for surplus working capital and other customary purchase price adjustments ('Acquisition'). The consideration for the acquisition consists of $62 million in cash and $10 million in Emeco shares to the vendors (issued at the Entitlement Offer price and will be escrowed for 12 months). The acquisition is subject to the successful completion of a capital raising and certain conditions precedent. The acquisition is expected to be completed at the end of February 2020.

The acquisition is funded by both institutional and retail entitlement offers. On 31 January 2020 Emeco successfully completed the institutional component of its 1-for-10.29 pro- rata accelerated non-renounceable entitlement offer of new shares which was launched on Wednesday, 29 January 2020. This raised a total of approximately $55 million through the issue of approximately 27 million New Shares at $2.07 per New Share (Offer price) and was strongly supported by existing eligible institutional shareholders, who took up approximately 90% of their entitlements (with take up of 95% excluding EHL ESOP Trust).

On 14 February 2020, Emeco completed the retail component of the Entitlement Offer ('Retail Offer') at an offer price of $2.07 and offer ratio of 1 new share for every 10.29 existing shares. The Retail Offer was underwritten and will raise approximately $10 million.

Directors' Declaration

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

1. the financial report and notes, set out on pages 9 to 25, 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 2019 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 18 day of February 2020

Signed in accordance with a resolution of the directors:

Ian Testrow
Managing Director

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

We have reviewed the accompanying half-year financial report of Emeco Holdings Limited, which comprises the condensed consolidated interim statement of financial position as at 31 December 2019, 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 of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 9 to 26.

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

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, 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 consolidated entity's financial position as at 31 December 2019 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*. As the auditor of Emeco Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Emeco Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 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*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
Partner
Chartered Accountants
Perth, 18 February 2020