Emeco Holdings Limited and its Controlled Entities

ABN 89 112 188 815

Interim Financial Report
For the half year ended 31 December 2022

Contents

Directors' Report
31 December 2022

The directors of Emeco Holdings Limited (**Company**) submit this report in respect of the half year financial period ended 31 December 2022 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
Peter Kane
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 17 November 2022. 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 2022 of $2,669,000 (2021: net profit after tax of $30,187,000) with total revenue of $429,537,000 (2021: $372,850,000). Adjusting for the one-off allowance for expected credit loss expense of $22,965,000 (pre tax), the Group would have reported a net profit after tax of $18,745,000 for the half year ended 31 December 2022 (2021: $30,187,000).

Dividends
During 1H23, a fully franked ordinary dividend of 1.25 cents per share, totalling $6,538,000 was paid (1H22: 1.25 cents ordinary dividend per share, totalling $6,786,000). A share buy-back was also executed during the period. Refer to Note 9 for further information.

On 21 February 2023, the Board resolved to pay an interim dividend of 1.25 cents per share, totalling $6,487,000. The interim dividend will be fully franked and will be paid on 13 April 2023.

Review of operations

	Operating results (1), (2)		Statutory results	
A$ millions	**1H23**	**1H22**	**1H23**	**1H22**
Revenue	429.5	372.8	429.5	372.8
EBITDA (3)	113.5	121.7	89.7	120.0
EBIT (3)	40.8	59.0	16.8	56.8
NPAT	19.6	31.8	2.7	30.2
EBITDA margin	26.4%	32.6%	20.9%	32.2%
EBIT margin	9.5%	15.9%	3.9%	15.2%

Note:

1. Significant 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.

Operating to statutory results reconciliation

A$ millions	Statutory	Tangible asset impairments	Long-term incentive program	Specific allowance for expected credit loss	Tax effect of adjustments	Operating
EBITDA	89.7	-	0.9	22.9	-	113.5
EBIT	16.8	0.2	0.9	22.9	-	40.8
NPAT	2.7	0.2	0.9	22.9	(7.2)	19.6

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

- **Tangible asset impairments:** Net impairments totalling $0.2 million (December 2021: $0.5 million) were recognised across the business on assets held for sale and subsequently disposed during the period.
- **Long-term incentive program:** During 1H23, Emeco recognised $0.9 million of non-cash expenses relating to the employee incentive plan (December 2021: $1.7 million).
- **Specific allowance for expected credit loss:** On 14 October 2022, Emeco announced a potential issue regarding recoverability of debtor amounts owing to Pit N Portal, resulting in an expense recognised during the period of $22.9m (December 2021: $nil). Refer to note 11 for further information.
- **Tax effect of adjustments:** notional tax on above adjustments at 30%.

Operating results

Operating net profit after tax (NPAT) for the half year ended 31 December 2022 (1H23) was $19.6 million, a decrease of $12.3 million from 1H22 attributable to reduced earnings in the Pit N Portal segment, higher depreciation expenses on right-of-use assets and higher interest charges on drawn working capital facilities compared to the prior corresponding period.

Group revenue for 1H23 was $429.5 million, an increase of 15.2% from $372.8 million in 1H22, due to growth in all segments reflecting strong market positions and customer demand across all segments.

Rental revenue was $233.7 million, up 15.6% from $202.2 million in 1H22 due to strong rental demand in both Eastern and Western Regions. The Rental segment was able to deploy idle fleet and secure rate increases across the fleet with new projects, contract extensions and application of contractual rise and fall mechanisms which contributed to revenue growth.

Workshops revenue was $68.3 million, up 66.3% from $41.1 million in 1H22 driven by increased activity and rates, and milestone revenue recognition of a new major customer contract.

Pit n Portal revenue was $127.5 million, down 1.6% from $129.6 million in 1H22, due to a decisive reset of the business during 1H23, terminating high-risk projects and successfully renegotiating the Mincor contract, This provides a win-win and long-term partnership with a valued customer, whilst ensuring the business generates acceptable and sustainable margins, earnings and returns for the remaining three-year tenure.

Operating EBITDA was $113.5 million, down 6.7% from $121.7 million in 1H22, and Operating EBIT was $40.8 million, down 30.9% from $59.0 million in 1H22. Operating EBITDA and Operating EBIT margins were 26.4% and 9.5%, respectively, with decreases in earnings and margins compared to 1H22 predominantly due to reduced earnings in the Pit N Portal business.

Operating cash flow

Operating cash flow before financing costs was $84.3 million in 1H23, driven by Operating EBITDA of $113.5, partially offset by a net working capital outflow of $28.7 million.

Total capital expenditure for the period was $74.5 million. This includes $60.1 million in net sustaining capital expenditure, $9.3m growth capital expenditure and $3.8 million in capital components.

Net cash financing costs of $12.4 million in 1H23 increased from $9.0m in 1H22 due to working capital facilities drawn during 1H23 to manage liquidity throughout the half.

Net debt and gearing summary

$A Millions	31 Dec 2022	30 June 2022
Interest bearing liabilities (current and non-current)[1]		
Secured notes[4]	250.0	250.0
Loan Note Agreement	35.0	0.0
Lease liabilities and other financing[4]	76.1	55.6
Total debt	**361.1**	**305.6**
Cash	(76.1)	(60.2)
Net debt[1]	**285.0**	**245.5**
Leverage ratio[2,3]	1.18x	0.98x
Interest cover ratio[5]	10.0	11.6

Note:
1. Figures based on facilities drawn. Debt in the table above is a non-IFRS measure. Excludes debt raising costs included in interest bearing liabilities in note 7.
2. Leverage ratio – Net debt / Operating EBITDA.
3. Leverage ratio at 31 December 2022 is based on LTM Operating EBITDA of $242.0 million.
4. Refer to note 7 in the interim financial report for information.
5. Interest cover ratio – Operating EBITDA / Net interest expense.

Emeco's leverage ratio has increased from 0.98x at 30 June 2022 to 1.18x at 31 December 2022, due to lower earnings and reduced debtor collections compared to the prior corresponding period.

The A$100,000,000 Revolving Credit Facility ("RCF") includes cash available of A$95,000,000 and a bank guarantee facility of A$5,000,000. During the period, the Company successfully refinanced the facility with existing lenders in the syndicate. The tenor of the facility is for three years expiring in December 2025, with an option to extend for a further two years to December 2027 at Emeco's election. The bank guarantee facility was increased from A$3,200,000 to A$5,000,000, thereby reducing the RCF from A$96,800,000 to A$95,000,000. All other terms of the RCF remain unchanged. At 31 December 2022 the Group had drawn A$35,000,000 of the RCF leaving an undrawn facility of A$60,000,000 (30 June 2022: Nil drawn of A$96,800,000). At 31 December 2022, the Group utilised A$3,000,000 of the A$5,000,000 bank guarantee facility (30 June 2022: A$3,100,000 of A$3,200,000 utilised).

Refer to note 7 in the accompanying interim financial report for additional information on Emeco's financing facilities.

Business risks

The Company's short to medium term operational and financial success may be impacted by a number of factors which, whilst not considered likely to have an individually material impact, may be material to the Company's operational and financial success if multiple risks eventuated at the same time or for prolonged durations. Some of these risks and mitigation strategies include, but are not limited to:

Risk	Mitigation & management strategies
Vulnerability to mining and commodity cycles	In recent years, the Company has had a firm focus on building a sustainable business that generates shareholder value through the cycles. To mitigate the risks posed by the cyclic nature of the industry, the Company has significantly reduced its cost base from both an operating expenditure and capital expenditure perspective. The acquisition of Force has assisted with this as it allows the Company to rebuild its own components and assets cost effectively. The Company has also focused on increasing the level of service it provides to its customers to embed the Company in customers' operations and secure longer contract tenure. The Company has also significantly diversified its commodity exposure with a significant reduction in coal exposure.
Overexposure to carbon intensive commodities like coal	The Company's acquisitions of Force (2017) and PNP (2020), together with the recent transfer of equipment from the Eastern Region to the Western Region has resulted in a significant reduction in the Company's coal exposure, reducing from 65% in FY19 to 31% in FY22.
Delay or unavailability of parts	Through the Force workshops business, the Group has been able to increase its resilience to supply chain issues by reducing its reliance on suppliers. Through a lead dealer agreement with a JV of the OEM dealers across Australia, the Company is also well positioned for security of supply by providing the OEMs a long term forecast of its parts demand. The Company has also increased its parts inventory levels in recent times to ensure the Company's fleet can be repaired and maintained as required.
Inflationary cost pressures	The Company is exposed to inflationary costs, however has been engaging with customers on out of cycle rate increases and also ensuring appropriate rate increase mechanisms are included in contracts. There is also a tight focus on cost management and appropriate back charging of costs to customers. Further, the Force business also helps mitigate against cost pressures by doing works in house cost effectively.
Skilled labour shortages	The industry has experienced a labour shortage (particularly skilled labour) throughout Australia in recent times. To mitigate against this, the Company has a 'People and Culture' team dedicated to ensuring employees and potential employees become embedded in the Company and feel part of the team. In addition, the Company does regular benchmarking to ensure employees are remunerated appropriately and in line with the market to remain competitive.
Significant safety incidents	The Company endeavours to continuously improve in its management and mitigation of this risk through ongoing enhancements to safety plans, processes and resources. The Company has recorded its sixth straight year of zero lost time injury.

Business risks (continued)

Short term contracts, contract terminations and/or timely redeployment of fleet	In recent years, the Company has focused on increasing the average tenure of its contracts. As part of this, the Company has also focused on increasing the level of service it provides to its customers to embed the Company in customers' operations and secure longer contract tenure. The acquisition of PNP in 2020 has assisted with this, given the higher level of service it can provide to its customers. The Company maintains strong customer relationships to understand fleet requirements in order to plan fleet allocation and minimise the time fleet is in between projects and not working. Whilst best efforts are made in this regard, there will always be gaps in between some contracts.
Underperformance of contracts	The Company's earnings are dependent on profitable contracts and from time to time, there may be underperforming contracts. Where renegotiation is not successful, other options to address the issue may be explored, including exit of the project, which may result in losses.
Extreme weather events	Short term weather events are a risk to business operations. The Group seeks to address revenue exposure to shutdowns or contract suspensions through the inclusion of standby rates. The Group often works with its customers in scenarios where extreme events have caused site wide issues or lack of access.
Business disruption due to a cyber security incident	The Company remains vigilant to cyber threats and has taken proactive steps to reduce cyber risk. Critical IT assets have been identified, controls have been put in place to restrict unauthorised access and threat detection technology has been deployed to identify and isolate potential breaches.

Additionally, the Company is exposed to emerging risks such as the impact of climate change, availability of financing and changes in drive train technologies. The Company manages these risks at both a strategic and day-to-day operational level.

Significant events occurring after half year end

On 21 February 2023, the Board resolved to pay an interim dividend of 1.25 cents per share, totalling $6,487,000. The interim dividend will be fully franked and will be paid on 13 April 2023. The Board also refreshed the 10/12 share buyback program.

There were no other significant events after the balance date.

Directors’ report (continued)
31 December 2022

Auditor’s independence declaration
The auditor’s independence declaration is set out on page 10 and forms part of the director’s report to the half year ended 31 December 2022.

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 21 February 2023.

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

Ian Testrow
Managing Director
Perth 21 February 2023

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Tower 2
Brookfield Place
123 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

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

21 February 2023

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 2022, 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

DELOITTE TOUCHE TOHMATSU

A T Richards

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 2022

	Note	31 December 2022 $'000	31 December 2021 $'000
Continuing operations			
Revenue	4	429,537	372,850
Other income		2,913	312
Repairs and maintenance		(82,530)	(61,480)
External maintenance services		(110,665)	(89,145)
Cartage and fuel		(9,162)	(8,341)
Employee expenses		(83,298)	(70,294)
Depreciation and amortisation expense		(72,732)	(62,604)
Impairment of tangible assets		(203)	(547)
Other expenses		(34,015)	(23,905)
Allowance for expected credit loss	11	(23,095)	-
Finance income		168	15
Finance costs		(13,069)	(13,133)
Net foreign exchange loss		(25)	(479)
Profit before tax expense		3,824	43,248
Tax expense		(1,155)	(13,061)
Profit for the period		2,669	30,187
Other comprehensive income			
Items that are or may be reclassified to profit and loss:			
Foreign currency translation differences (net of tax)		30	11
Changes in fair value of cash flow hedges (net of tax)		-	-
Total other comprehensive income for the period		30	11
Total comprehensive income for the period		2,699	30,198

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 16 to 26.

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 2022

	31 December 2022 $'000	31 December 2021 $'000
Profit attributable to:		
Owners of the Company	2,669	30,187
Profit for the period	2,669	30,187
Total comprehensive profit attributable to:		
Owners of the Company	2,699	30,198
Total comprehensive profit for the period	2,699	30,198

	31 December 2022 Cents	31 December 2021 cents
Profit per share:		
Basic profit per share	0.51	5.60
Diluted profit per share	0.51	5.51
Profit per share from continuing operations		
Basic profit per share	0.51	5.60
Diluted profit per share	0.51	5.51

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 16 to 26.

Emeco Holdings Limited and its Controlled Entities

Condensed Consolidated Interim Statement of Financial Position

as at 31 December 2022

	Note	31 December 2022 $'000	30 June 2022 $'000
Current assets			
Cash and cash equivalents		76,083	60,158
Trade and other receivables		151,549	147,037
Inventories and work in progress		21,064	25,311
Other current assets		11,276	19,043
Assets held for sale		3,792	4,094
Total current assets		263,765	255,454
Non-current assets			
Intangible assets		10,248	10,971
Property, plant and equipment		728,214	718,094
Right of use asset		55,149	40,894
Total non-current assets		793,611	769,959
Total assets		1,057,376	1,025,413
Current liabilities			
Trade and other payables		124,317	139,778
Interest bearing liabilities	7	55,776	14,969
Provisions		14,249	14,546
Total current liabilities		194,342	169,293
Non-current liabilities			
Interest bearing liabilities	7	301,280	286,095
Provisions		632	682
Deferred tax liabilities		3,276	2,122
Total non-current liabilities		305,188	288,899
Total liabilities		499,530	458,192
Net assets		557,846	567,221
Equity			
Share capital	8	1,149,456	1,155,856
Reserves		8,479	7,585
Retained losses		(600,089)	(596,220)
Total equity attributable to equity holders of the Company		557,846	567,221

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 16 to 26.

Emeco Holdings Limited and its Controlled Entities
Condensed Consolidated Interim Statement of Changes in Equity
For the six months ended 31 December 2022

	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 2021	1,171,457	30,901	15,025	(38,294)	(647,688)	531,401
Total comprehensive income for the period						
Profit for the period	-	-	-	-	30,187	30,187
Other comprehensive income						
Foreign currency translation differences	-	-	11	-	-	11
Total comprehensive income for the period	-	-	11	-	30,187	30,198
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
On market share buy-back	(3,798)	-	-	-	-	(3,798)
Dividend paid	-	-	-	-	(6,786)	(6,786)
Shares vested during the period	-	(3,364)	-	3,364	-	-
Share-based payment transactions	-	1,735	-	-	-	1,735
Total contributions by and distributions to owners	(3,798)	(1,629)	-	3,364	(6,786)	(8,849)
Balance at 31 December 2021	1,167,659	29,272	15,036	(34,930)	(624,287)	552,750

	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	1,155,856	28,475	14,579	(35,469)	(596,220)	567,221
Total comprehensive income for the period						
Profit for the period	-	-	-	-	2,669	2,669
Other comprehensive income						
Foreign currency translation differences	-	-	30	-	-	30
Total comprehensive income for the period	-	-	30	-	2,669	2,699
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
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	1,149,456	25,988	14,609	(32,118)	(600,089)	557,846

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 16 to 26.

Emeco Holdings Limited and its Controlled Entities

Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2022

		31 December 2022 $'000	31 December 2021 $'000 Restated
Cash flows from operating activities			
Cash receipts from customers	2(b)	442,498	403,126
Cash paid to suppliers and employees	2(b)	(358,164)	(290,260)
Cash generated from operations		84,334	112,866
Finance income received		168	15
Finance costs paid		(12,377)	(8,986)
Net cash from operating activities		72,125	103,895
Cash flows from investing activities			
Proceeds on disposal of non-current assets		1,256	2,511
Payment for property, plant and equipment		(74,475)	(83,272)
Payments for acquired entities		-	(2,248)
Net cash used in investing activities		(73,219)	(83,009)
Cash flows from financing activities			
Dividends paid to company's shareholders		(6,538)	(6,786)
Payments for shares bought back		(6,400)	(3,798)
Proceeds from borrowings		64,869	270,000
Repayment of borrowings		(25,000)	(266,828)
Premium paid on US notes repurchased		-	(11,191)
Payment for debt financing costs		-	(5,100)
Payments for hedge derivatives closed		-	(5,314)
Repayment of lease liabilities		(9,916)	(4,992)
Net cash used in financing activities		17,015	(34,009)
Net decrease in cash and cash equivalents		15,920	(13,123)
Cash and cash equivalents at beginning of the period		60,158	74,725
Effects of exchange rate fluctuations on cash held		5	(150)
Cash and cash equivalents at the end of the financial period		76,083	61,452

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 16 to 26.

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 2022 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 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 2022 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*.

They do 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 2022.

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 2022 annual financial report for the financial year ended 30 June 2022. The accounting policies are consistent with Australian Accounting Standards.

This condensed consolidated interim financial report was approved by the board of directors on 21 February 2023.

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

The Company has amended the presentation in the statement of cash flows for the cash receipts from customers and cash paid to suppliers and employees to be presented gross of GST. This is done as it's considered to present more useful information and aide understandability. Comparatives have been reclassified accordingly as outlined in the table below:

	31 December 2021		
	As stated $'000	**Adjustment $'000**	**Restated $'000**
Cash receipts from customers	365,841	37,285	403,126
Cash paid to suppliers and employees	(252,975)	(37,285)	(290,260)

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 2022. 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 2022 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 $91,101,000 at 30 June 2022. A taxable profit has continued to be generated in the current period reducing the recognised losses to $86,900,000 at 31 December 2022.

At 30 June 2022, the Company recognised its full historical Australian tax losses which was offset by deferred tax liabilities, resulting in a net deferred tax liability of $2,122,000. At 31 December 2022, the Company has recognised the full deferred tax asset of $86,900,000 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 $3,276,000 at 31 December 2022. The Company expects to fully utilise carried forward losses as the Group is expected to continue to generate taxable profits.

Impairment of assets

The Group performs annual impairment testing at 30 June, however also performs an assessment at the end of each reporting period whether there are any indicators its cash generating units (CGU's) may be impaired. In making such assessment at 31 December 2022, 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 2022
- The Pit N Portal CGU incurred an EBITDA loss during the period; and
- Market interest rates have increased during the current and preceding periods, resulting in higher discount rates used to calculate the CGU's recoverable amount

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 2022. Key assumptions are consistent with what was applied in the June 2022 assessment, however have been updated to consider the revised forecast of all CGU's and current discount rate. The post-tax discount rate used in the calculations is 10.2% (June 2022: 8.7%). No impairment was identified from the impairment testing and the recoverable amounts of each CGU are not sensitive to reasonable changes in key assumptions.

Key judgement - Allowance for expected credit losses ("ECL's)

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 macro-economic impacts of 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.

4. Segment reporting

The Group has three (December 2021: 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 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	Provides a range of mining services solutions and associated services to customers in Australia.

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

	Rental $'000	Workshops $'000	Pit n Portal $'000	Total $'000	
Period ended 31 December 2022					
Segment revenue	238,568	111,886	127,519	477,974	
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 and amortisation	**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)	**63,703**	**2,486**	**(28,779)**	**37,410**	
Corporate overheads				(20,661)	(1)
EBIT				**16,749**	
Finance income/(expense) (net)				(12,901)	
Net foreign exchange gain/(loss) (net)				(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**	**968,254**	
Unallocated assets				89,122	
Total Group assets				**1,057,376**	
Net capital expenditure	**69,431**	**1,433**	**2,356**	**73,219**	
Total liabilities for reportable segments	**84,006**	**51,091**	**36,223**	**171,321**	
Unallocated liabilities				328,209	
Total Group liabilities				**499,530**	

	Rental $'000	Workshops $'000	Pit n Portal $'000	Total $'000	
Period ended 31 December 2021					
Segment revenue	210,758	85,459	129,639	425,856	
Intersegment revenue	(8,606)	(44,400)	-	(53,006)	
Revenue from external customers	**202,152**	**41,059**	**129,639**	**372,850**	
Other income	225	23	64	312	
Segment earnings before interest, tax, depreciation and amortisation	**116,597**	**4,363**	**16,382**	**137,342**	
Impairment of tangible assets	(547)	-	-	(547)	
Depreciation and amortisation	(51,986)	(1,574)	(8,015)	(61,575)	
Segment result (EBIT)	**64,064**	**2,788**	**8,368**	**75,220**	
Corporate overheads				(18,375)	(1)
EBIT				**56,845**	
Finance income/(expense) (net)				(13,118)	
Net foreign exchange gain/(loss) (net)				(479)	
Net profit before tax				**43,248**	
Tax expense				(13,061)	
Net profit after tax				**30,187**	
Total assets for reportable segments	**677,068**	**48,337**	**173,142**	**898,547**	
Unallocated assets				75,849	
Total Group assets				**974,394**	
Net capital expenditure	**64,745**	**1,394**	**14,622**	**80,761**	
Total liabilities for reportable segments	**60,670**	**34,088**	**43,349**	**138,107**	
Unallocated liabilities				283,537	
Total Group liabilities				**421,644**	

(1) Note that Corporate overheads includes $1.8m (2021: $1.0m) of Depreciation and amortisation.

4. Segment reporting (continued)

Major customer

For the six months ended 31 December 2022 the Group had three (2021: two) major customers across the segments that represented $131,600,000 (2021: $84,750,000) of the Group's total revenues, as indicated below:

Segment	31 December 2022 $'000	31 December 2021 $'000
Australia – Rental [1]	42,500	7,174
Australia - Workshops	41,454	32,351
Australia – Pit n Portal	47,706	45,225
Total	131,600	84,750

(1) The current period for rental revenue includes a customer which was not considered a major customer for the period ended 31 December 2021.

5. Key management personnel

There were no changes in key management personnel during the six months ended 31 December 2022, and arrangements with key management have remained consistent since 30 June 2022.

6. Equity

Dividends

Emeco announced a final fully franked dividend for the year ended 30 June 2022 of 1.25 cents per fully paid ordinary share totalling $6,538,000, which was paid on 30 September 2022 (six months ended 31 December 2021: 1.25 cents per share).

Franking account

	31 December 2022 $'000	30 June 2022 $'000
Dividend franking account		
30% franking credits available to shareholders of Emeco Holdings Limited for subsequent financial years	76,763	79,584

The above available amounts are based on the balance of the dividend franking at 31 December 2022 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 2022;
(c) franking credits that will arise from the receipt of dividends recognised as receivable by the tax consolidated group at 31 December 2022;
(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 $2,780,000 (30 June 2022: $2,821,000). In accordance with the tax consolidated legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of $76,763,000 (30 June 2022: $79,584,000) franking credits.

7. Interest bearing liabilities

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. The funds received from this debt raising were used to repay the outstanding US$180,007,000 March 2024 notes, call premium and to close out all hedging associated with these notes on 2 July 2021.

The AUD Notes have fewer restrictions on the Group than the 2024 USD notes, however, 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 in the AUD notes. The effective interest rate of these notes is 6.76%, which is inclusive of the capitalised borrowing costs and annual coupon.

A$13,069,000 in expenses were recognised in finance costs of the Condensed Consolidated Interim Statement of Profit or Loss for the period ending 31 December 2022, of which A$11,393,000 related to interest expense incurred on secured Notes and AASB 16 Leases, and A$1,676,000 related to amortised borrowing costs. In the prior corresponding period, A$13,133,000 of finance costs were incurred consisting of A$11,866,000 of interest expense on secured Notes and AASB 16 Leases, and $1,266,000 related to amortised borrowing costs.

Revolving credit facility
The A$100,000,000 Revolving Credit Facility (“RCF”) includes cash available of A$95,000,000 and a bank guarantee facility of A$5,000,000. During the period, the Company successfully refinanced the facility with existing lenders in the syndicate. The tenor of the facility is for three years expiring in December 2025, with an option to extend for a further two years to December 2027 at Emeco’s election. The bank guarantee facility was increased from A$3,200,000 to A$5,000,000, thereby reducing the RCF from A$96,800,000 to A$95,000,000. All other terms of the RCF remain unchanged. At 31 December 2022 the Group had drawn A$35,000,000 of the RCF leaving an undrawn facility of A$60,000,000 (30 June 2022: Nil drawn of A$96,800,000). At 31 December 2022, the Group utilised A$3,000,000 of the A$5,000,000 bank guarantee facility (30 June 2022: A$3,100,000 of A$3,200,000 utilised).

Working capital facility
The Group has a credit card facility with a limit of A$150,000 (30 June 2022: A$150,000). The facility is secured via term deposit.

Other financing
The Group has financed its annual insurance premium of A$4,393,000 (30 June 2022: A$497,000). The agreement has a term of 10 months completing August 2023.

Financial liability
Emeco recognised a current financial liability of $1,217,000 (30 June 2022: A$ Nil) and non-current financial liability of $3,651,000 (30 June 2022: A$ Nil) relating to the Sale and Leaseback of Equipment.

7. Interest bearing liabilities (continued)

	31 December 2022 $'000	30 June 2022 $'000
Current		
Amortised cost		
Other financing	4,393	965
Financial liability	1,217	-
Loan Note Agreement	35,000	-
Lease liabilities	15,165	14,005
	55,776	14,970
Non-current		
Amortised cost		
AUD notes – secured	250,000	250,000
Financial liability	3,651	-
Debt raising costs	(3,998)	(4,548)
Lease liabilities	51,627	40,643
	301,280	286,095

During the period, additions to lease liabilities were A$21,364,000 (31 December 2021: A$8,076,000) with no leases terminated during the period (31 December 2021: A$ Nil). Lease payments net of interest of A$9,916,000 were made during the period (31 December 2021: A$4,992,000), and there were no remeasurements of lease liabilities (31 December 2021: A$ Nil).

Other financing includes insurance premium funding of A$4,393,000, with no repayments in the period to 31 December 2022 (31 December 2021: A$ Nil). A current financial liability of $1,217,000 (30 June 2022: A$ Nil) and non-current financial liability of $3,651,000 (30 June 2022: A$ Nil) was recognised, relating to the Sale and Leaseback of Equipment.

8. Capital and reserves

	31 December 2022 $'000	30 June 2022 $'000
Share capital		
519,002,615 (2022: 526,666,035) ordinary shares, fully paid	1,225,343	1,231,743
Acquisition reserve	(75,887)	(75,887)
	1,149,456	1,155,856

Movements in ordinary share capital

Details	Date	Shares	Issue price ($)	$'000
Balance	1 July 2022	526,666,035		1,231,743
On market share buy-back [(1)]	7 September 2022	(3,627,412)	0.90	(3,252)
On market share buy-back [(1)]	4 November 2022	(4,036,008)	0.78	(3,148)
Balance	**31 December 2022**	**519,002,615**		**1,225,343**
Less: treasury shares		3,509,554		
Issued capital		**515,493,061**		

[(1)] During the period ending 31 December 2022, 7,663,420 shares were purchased at an average share price of $0.84 totalling $6,400,000.

9. Contingent liabilities and commitments

The Group has guaranteed the repayments of $1,875,000 (30 June 2022: $3,561,000) in relation to short-term and low-value leases not classified as lease liabilities in note 7.

The Group has provided bank guarantees in the amount of $3,000,000 (30 June 2022: $3,100,000) in relation to obligations under operating leases and rental premises.

10. 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 subsequent to period end, on 17 February 2023. During the period an amount of $122,084 was reimbursed to Mr Ian Testrow for interest expense incurred on a personal loan drawn with a third party Australian financial institution ("Personal Loan"). The estimated FBT liability associated with this reimbursement is $119,361, resulting in a total cost of $241,445. The Current 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 Ian Testrow to retain his equity investment in the Company and avoid any need for Mr Ian Testrow to sell Shares to repay the Personal Loan.

10. Related party transactions (continued)

The zero-interest loan of $4,948,640.55 will be repayable by Mr Ian Testrow to a subsidiary of the Company at the earlier of 30 June 2027, 3 months of Mr Ian Testrow ceasing to be employed by the Group in any circumstances (other than death or total and permanent disability), or 6 months in the event of Mr Ian Testrow's death or total and permanent disability.

11. Trade and other receivables

	Consolidated	
	31 December 2022 $'000	30 June 2022 $'000
Current		
Trade receivables	135,026	110,055
Accrued revenue	30,709	25,667
Less: Allowance for expected credit losses	(25,581)	(189)
	140,154	135,533
GST receivable	2,372	3,900
Other receivables	9,023	7,415
	151,549	146,848

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

	Consolidated	
	31 December 2022 $'000	30 June 2022 $'000
Opening loss allowance	189	205
Collective ECL recognised during the period (1)	131	(16)
Specific ECL recognised during the period (2)	25,261	-
Write-offs	-	-
Closing loss allowance (3)	25,581	189

(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 risk, and only assesses uninsured and underinsured customers that have breached their current credit limit in the ECL calculation. The Group also reviews specific customer receivables deemed a higher recoverability risk (see below).

(2) As announced on 14 October 2022, the Group advised of a potential issue regarding the full recoverability of outstanding amounts owing to Pit N Portal for contractual services provided to a customer during 2H22 and 1H23. Despite the company receiving $4.5 million in December 2022 and expecting further receipt of funds before the end of February 2023, given the ongoing delay in cash receipts and uncertainty over the level of ultimate recoverability, an allowance of $25,261,000 has been made against the outstanding balance as at 31 December 2022. Pit N Portal is not in dispute with the customer about the services provided nor the amount owed and continues to be in active discussions with the customer about the terms and timing of payment for outstanding amounts.

(3) The difference between the movement within the allowance of $25,392,000 and the allowance expense of $23,095,000 relates to the GST portion on Specific ECL of $2,296,000.

12. Subsequent events

On 21 February 2023, the Board resolved to pay an interim dividend of 1.25 cents per share, totalling $6,487,000. The interim dividend will be fully franked and will be paid on 13 April 2023. The Board also refreshed the 10/12 share buyback program.

There were no other significant events after the balance date.

Directors' Declaration

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

1. the financial report and notes, set out on pages 11 to 26, 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 2022 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 21 day of February 2023

Signed in accordance with a resolution of the directors:

Ian Testrow
Managing Director

Deloitte.

Deloitte Touche
Tohmatsu
ABN 74 490 121 060

Tower 2
Brookfield Place
123 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

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

Conclusion

We have reviewed the accompanying 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 2022, 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 11 to 27.

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 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 2022 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 Company 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 2022 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*.

Deloitte.

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

DELOITTE TOUCHE TOHMATSU

A T Richards

A T Richards
Partner
Chartered Accountants
Perth, 21 February 2023