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McAleese Limited FY2015 Results

- **EBITDA of $61.7 million before individually significant items, on revenue of $636.9 million and an after tax net loss of $90.9 million**
- **Successful divestment of non-core assets (including Liquip International and Beta Fluid Systems) undertaken during 1H FY2015**
- **Strong cash flow of $39.3 million generated from operating activities with capital expenditure of $54.1 million fully funded by asset disposals**
- **Net positive cash flow from investing activities of $18.9 million resulted in net debt reduction of $58.2 million to $170.5 million at 30 June 2015**
- **2H FY2015 earnings impacted by significant fluctuations in commodity prices, changes to commercial relationship with Atlas Iron and curtailed mine development and maintenance activity across Australia**
- **Impairments undertaken as a result of challenging 2H FY2015 conditions and revised commercial relationship with Atlas Iron**
- **Revised banking arrangements to stabilise balance sheet and deliver future business success**

McAleese Limited (ASX: MCS) (**McAleese Group** or the **Company**) today announced its annual results for the FY2015 financial year. Group EBITDA of $61.7 million (before individually significant items) on revenue of $636.9 million is below previous EBITDA guidance.

The variation from previous guidance is largely due to the impairment of a significant debtor to the Heavy Haulage & Lifting division which was placed into voluntary administration, as announced by the Company on 31 July 2015. At this stage there is limited information available as to the collectability of this debt.

Pro forma trading loss after tax is $7.4 million or 2.61 cents per share excluding the impact of significant items of $83.5 million after tax or 29.56 cents per share. Net tangible assets at 30 June 2015 were $135.9 million or 48.09 cents per share.

Managing Director and CEO of McAleese Group, Mark Rowsthorn commented, “The 2015 financial year has been one of significant contrasts for the McAleese Group and its businesses.

“During 1H FY2015 we worked to stabilise the operational performance of each of our divisions. The Bulk Haulage division commenced haulage of an additional 6mtpa for Atlas Iron Limited’s (ASX: AGO) Mt Webber project and a new 2 year haulage contract with Millennium Minerals Limited (ASX: MOY) and a national restructure of the Cootes Transport business was completed.

“Since then the safety and operating performance of Cootes Transport has significantly improved and our efforts publicly acknowledged by the NSW Roads and Maritime Services which concluded its Improvement Notice program in December 2014.

"We also undertook a successful divestment program, disposing of non-core assets (Liquip International and Beta Fluid Systems) and surplus equipment (Cootes Transport and Heavy Haulage & Lifting) to secure proceeds in excess of expectations.

"In sharp contrast, the dramatic slide in commodity prices during the 2H FY2015 weighed heavily on the operations of our key customer Atlas Iron, and led to a significant reduction in the Australian project pipeline for mine development and maintenance. The Bulk Haulage, Heavy Haulage & Lifting and Specialised Transport divisions were heavily impacted as a result.

"Despite these challenging conditions, we have maintained our commitment to improving in the areas of safety, people and diversity and customer performance. We have also agreed revised banking arrangements with our lenders that provide us with balance sheet stability and adequate runway to implement our strategic initiatives and to realign activities of the Group to better capitalise on project opportunities and restore shareholder value," Mr Rowsthorn said.

Divisional Performance

Prior to a dramatic slide in commodity prices and the onset of challenging conditions in its key end markets during 2H FY2015, McAleese Group had commenced a number of improvement initiatives across each of its divisions.

During 1H FY2015 the Bulk Haulage division commenced haulage of an additional 6 mtpa of iron ore from Atlas Iron's Mt Webber mine and a two year contract to provide haulage and road maintenance services to Millennium Minerals at their Nullagine Project in the East Pilbara region of Western Australia. The division also implemented a number of productivity improvement initiatives to deliver increased payload and vehicle uptimes across its Kalgoorlie and Pilbara operations.

The Oil & Gas division underwent a complete national restructure during the year, reducing its average fleet age to below 5 years and improving profitability. Despite these efforts the business was unsuccessful in retaining the Caltex Victoria and NSW contracts, both of which were marginal on an EBIT basis.

Dramatic movements in commodity prices during the 2H FY2015 saw the McAleese Group move to support the recommencement of Atlas Iron's activities via a revised haulage base rate with potential upside revenue linked to iron ore pricing and currency movements. Subsequent to the balance date the business also subscribed to Atlas Iron's capital raising.

The challenging conditions, volatile iron ore pricing and revised arrangements also resulted in a decision to impair a combination of goodwill, intangibles (together $49 million) and property, plant and equipment ($18 million) in the Bulk Haulage division.

The division also entered a new iron ore haulage agreement with Process Minerals International (PMI), a subsidiary of Mineral Resources Limited (ASX: MIN), during 2H FY2015 which saw the redeployment of over 40 quad road train combinations and staff to support the haulage of an initial one million tonnes of iron ore from PMI's Iron Valley project to Utah Point over a six month period.

The Heavy Haulage & Lifting (**HHL**) division was similarly impacted by challenging conditions in the resources sector, particularly in its key geography of Northern Queensland. In response to market over-capacity and the deferral of high profile projects during the 2H FY2015, the division's property, plant and equipment was impaired by $67 million.

As mentioned above, a significant customer of the HHL division, Trans Global Projects Pty Ltd was placed into administration. The Directors have fully impaired the associated debtor balance of $6.5 million (excluding GST) given a lack of information about its collectability.

The Specialised Transport division was impacted by softening economic activity and a slowdown in the resources and infrastructure sectors which saw further reduction in freight volumes, particularly as mining activities slowed during 2H FY2015. In light of these conditions, goodwill was impaired by $4.1 million.

Heavy Haulage Australia (HHA)

In June 2015, it was announced that HHA Group Pty Ltd and its subsidiaries (**HHA Group**) had been placed into administration following a deterioration of market conditions during the second half and HHA Group's inability to support the high fixed costs of its lease arrangements. As a result McAleese Group has taken an impairment of $18.9 million against the equity investment, associated loans and net receivables.

Cash flow, net debt and financing

During the period the Company generated cash flow from operating activities of $39.3 million and undertook capital expenditure of $54.1 million, which was fully funded by asset disposals. Cash flow from investing activities was a net positive $18.9 million, resulting in net debt being reduced by $58.2 million to $170.5 million at 30 June 2015.

As at the balance date, the Company had drawn down $210.1 million under its existing facilities agreement which includes undertakings as to leverage, interest cover and gearing.

McAleese Group's compliance with these undertakings was waived at 30 June 2015 as part of establishing revised banking arrangements to apply during FY2016.

Revised banking arrangements

Subsequent to the balance date the Company agreed revised terms with its syndicate lenders.

The arrangements suspend the Group's previous financial undertakings relating to leverage, interest cover ratio and gearing during FY2016. The new covenants relate to minimum EBITDA, minimum CFADS (Cash Flow Available for Debt Servicing) and maximum capital expenditure requirements.

As part of the revised arrangements the Company has reduced its facility limits. The Board and management are satisfied that a combination of cash on hand, forecast cash generation and remaining facility limits will provide the Company with sufficient liquidity.

The revised banking arrangements provide McAleese Group with balance sheet stability, adequate runway to implement strategic initiatives and activities, and enable the future improvement of its businesses.

The Board and Management will continue to monitor the performance of each of the divisions against expectation and the Company against revised banking requirements.

Safety and Diversity

Against the backdrop of difficult external conditions, the Company continued to drive positive momentum in key internal focus areas of safety, people and diversity.

During FY2015 the Company improved its Total Recordable Injury Frequency Rate (TRIFR) by 39% against pcp, with its rate reduced to 17.6.

McAleese Group's Lost time Injury Frequency Rate (LTIFR) was reduced from 9.4 to 4.1 and reflects a 56% improvement against pcp.

To drive further improvement and support this positive momentum towards a TRIFR below 10, the Company has implemented a target TRIFR reduction of 30% for FY2016.

In addition to the positive work being undertaken in safety and to encourage and promote a diverse and inclusive workplace culture, a Group-wide HR framework was developed and implemented. During the year, female participation was increased to 17.7% of the total workforce, exceeding the Board's objective 12 months ahead of schedule.

The Bulk Haulage division also exceeded its diversity objectives for the period and improved indigenous participation after a pilot program was implemented at its Kalgoorlie and Port Hedland operations.

Mr Rowsthorn commented, "We are proud to be able to show that our diversity and inclusion efforts are resulting in positive changes across our workforce, enhancing our culture and enabling our people for the future."

Strategic Direction

With the support of its lenders and with its revised banking arrangements in place, the Company is focused on greater coordination of business development and market capabilities to maximise revenue and better capitalise on cross selling opportunities across the resources and infrastructure project markets.

Management has begun realigning the Group's general and express freight activities to provide a Company owned network of services along Australia's east coast and across the East/West corridor. The realignment of these services is expected to increase the volume of freight handled.

Managing Director and CEO of McAleese Group, Mark Rowsthorn commented, "While conditions remain challenging, particularly in the HHL division where there remains less visibility in relation to the resources and infrastructure pipeline, we continue to focus on further enhancing our operations and improving customer service levels to deliver shareholder value.

"Our revised banking arrangements provide us with a stable balance sheet and sufficient time to implement our strategic and operational initiatives that we are confident will see McAleese Group's performance restored and ensure we are best positioned to capitalise on future opportunities."

Advisory firm, Moelis & Company have also been appointed to assist McAleese Group with exploring its strategic options which include sourcing new capital to support longer term growth.

ENDS

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