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ASX Market Announcements Office
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By electronic lodgement

McAleese Limited 1H FY16 Results

- **EBITDA of $6.7 million before individually significant items, on revenue of $285.0 million.**
- **After tax statutory net loss of $97.4 million ($14.6 million before individually significant items).**
- **Net debt of $188.0 million at 31 December 2015.**
- **Focus during the half on business transformation program to align the business with lower activity levels and maximise profitable revenue.**
- **Strategic Process to recapitalise the Company's balance sheet is ongoing.**
- **Impairments to property, plant and equipment of $50.1 million primarily due to ongoing weakness in commodity prices and project activity in the resources sector.**

McAleese Limited (ASX: MCS) (**McAleese Group** or the **Company**) today announced its results for the half year ended 31 December 2015 and reported EBITDA of $6.7 million (before individually significant items) on revenue of $285.0 million. The pro forma trading loss after tax was $14.6 million or 5.2 cents per share excluding the impact of significant items. The statutory net loss after tax was $97.4 million or 34.4 cents per share.

The result for the half reflects the continuation of challenging market conditions, with key commodity markets serviced by the Company experiencing weak and volatile conditions and the capital projects pipeline in the resources sector remaining subdued. The difficult trading environment saw a 17% decline in revenue from the prior corresponding period (**pcp**) (excluding revenue from Liquip International and Beta Fluid Systems which were divested during 1H FY15).

The statutory loss after tax of $97.4 million includes non-cash impairment charges of $50.1 million in relation to property, plant and equipment, with the post-impairment carrying value of property, plant and equipment reflecting the higher of 'value-in-use' and 'fair market value less costs of disposal' for each cash-generating unit. In accordance with the Company's accounting policies, the carrying value of the Oil & Gas division is based on 'value-in-use'. The carrying value of all other divisions is based on 'fair market value less costs of disposal'. The statutory loss after tax also includes an $8.3 million impairment charge against the carrying value of the Company's investment in Atlas Iron Limited (ASX: AGO) (**Atlas**) shares.

Safety performance was represented by TRIFR[1] of 17.0 and LTIFR[2] of 4.2 which were materially in line with FY15 and reflected a 21.3% and 27.6% improvement respectively on pcp. In line with our commitment to safety, the Company's objective remains TRIFR less than 10.

[1] Total Recordable Injury Frequency Rate.
[2] Lost Time Injury Frequency Rate.

Managing Director and CEO of McAleese Group, Mark Rowsthorn said, "The financial results for the half clearly reflect a difficult trading environment for the Company.

"Our recent focus has very much been on restructuring the business to align with lower activity levels, while actively seeking profitable revenue opportunities.

"We have made good progress with our business transformation program and are confident that there are significant gains yet to be realised."

Divisional performance

The Bulk Haulage division increased haulage volumes from the pcp, however, financial performance and margins were materially impacted by the revised haulage contracts with Atlas, which are designed to maximise Atlas' cost competitiveness at low iron ore prices and provide the Company with an increased return when iron ore prices are higher. There was minimal profit share from Atlas' operations during the reporting period.

Results in the Oil & Gas division reflected a period of transition toward a sustainable business with improved returns and long-term contracts. In December, Cootes Transport was successful in tendering for a new LPG cartage contract with Elgas Limited for a further five years from 1 January 2016. The new contract is expected to deliver total revenues of approximately $50 million per annum and improved EBITDA, confirming McAleese Oil & Gas' position as an industry leader in the transportation of dangerous goods. The Refuel International business continued to successfully tender for new work and is benefiting from recent declines in the Australian dollar.

The Heavy Haulage & Lifting division (**HHL**) was impacted by continued low capital expenditure in the resources industry and ongoing deterioration in market conditions. The Company remains confident that maintenance capital expenditure in the resources sector will improve over the medium term, however there is material uncertainty about the timing of a recovery. During the half, significant focus was placed on aligning HHL's costs and assets to the market environment.

The Specialised Transport division continued to face weak East-West volumes and a highly competitive market on East coast lanes. While volumes were materially in line with the pcp, margins contracted. A review of the division's revenue base is ongoing, with corrective action commenced to improve yield and restore profitability.

Business transformation program

To respond to the rapid negative changes in the operating environment, a business transformation program was initiated during the period. This program has been a major focus for the Company and seeks to meet the requirements of existing and new customers with an integrated service offering and to develop a stronger operating platform.

Activity to date has focused on:

- divestment of surplus assets;
- detailed reviews of individual business units on a geographical basis and the development of plans to capture efficiency improvement opportunities;
- business development focus on selling a bundled offering;
- strategic review of the Company's depot network, including opportunities for consolidation and resizing of the property portfolio; and

- simplification of the organisational structure and removal of duplication between divisions and with Group/Corporate functions.

As part of the business transformation program, $12.8 million in net cash was generated from asset disposals during the half. The asset disposal program continues, with the previously announced sale of LPG tankers to Elgas completing in January. In excess of $6 million per annum in run rate EBITDA savings have been generated to date through cost reduction initiatives.

Cash flow, net debt and financing

Net debt increased from $170.5 million at 30 June 2015 to $188.0 million at 31 December 2015. The net debt balance was materially impacted by delayed customer receipts at the balance date, with these amounts received in early January. Net debt also reflects $14 million invested in Atlas shares during the period. Net debt at the end of February was $175.0 million.

Gross capital expenditure of $4.9 million was more than offset by asset disposals and predominantly maintenance related.

The Company's Strategic Process has been supported by its lenders who agreed to revise the terms of the Company's multi-option Syndicated Facility Agreement (**SFA**) in August 2015. The revised arrangements suspended the Company's previous financial undertakings relating to leverage, interest cover ratio and gearing during FY16. New covenants relating to minimum EBITDA, minimum CFADS (Cash Flow Available for Debt Servicing) and maximum capital expenditure requirements were incorporated and the Company reduced its facility limits pursuant to the revised arrangements.

As announced to ASX on 28 January 2016, the Company received from its financiers a waiver of the breach of certain financial undertakings under its SFA at 31 December 2015 (the **Waiver**). The Waiver continues subject to the continuation of the Strategic Process and the Company meeting reporting obligations to its financiers and each financier being satisfied with those reports. The Company's financiers have been provided information regarding the structure and terms of the various proposals received by the Company and remain supportive of the Strategic Process.

Strategic Process

The Strategic Process to recapitalise the Company with the assistance of Moelis & Company was a key focus during the half.

Please refer to the separate ASX announcement entitled 'Update on Strategic Process and Voluntary Suspension' released today for more information on the status of the Strategic Process.

ENDS

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