

# Crane Group Limited

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## ASX and Media Release

### Commentary on Preliminary Full Year Results to 30 June 2010

2 August, 2010

#### CRANE GROUP ANNOUNCES A \$36.8 MILLION FULL YEAR NET PROFIT

Building and industrial products company Crane Group Limited (ASX:CRG) today announced a \$36.8 million unaudited net profit after tax and before significant items for the year ended 30 June, 2010. The result, which was 35% lower than in FY09, was in line with guidance provided in the FY10 half-year results announcement.

Crane Group Managing Director, Greg Sedgwick said the continued focus on cost reduction, operational efficiencies and cash management has put the Group in the best possible position to weather the difficult market conditions. "Particularly pleasing was that two of our three business units reported increased earnings before interest, tax and significant items (EBIT) for the full year."

Key elements of the result include:

- Net profit after tax before significant items of \$36.8 million, in line with guidance;
- Strong cash flow reduced debt by \$62 million compared with June 2009, resulting in gearing of 19.0% at 30 June 2010, down from 25.1% at the same time last year;
- Tradelink continued to grow its EBIT margin despite marginally lower sales;
- A final dividend of 22 cents per share fully franked, taking total dividends for the year to 40 cents per share fully franked; and
- The Pipelines business was impacted by a lack of major projects.

Mr. Sedgwick said: "The Group's management and employees worked hard this year to adjust to the challenging external environment. The improved results in the second half of the year are a testament to those efforts."

The Crane Group Board has declared a fully franked final dividend of 22 cents per share, bringing total fully franked dividends for FY10 to 40 cents per share. The full year dividend represents a payout ratio (before significant items) of 83%, up slightly on prior year payout ratios and reflective of the Group's solid financial position. The Record Date for the final dividend is 16 August, 2010 and the dividend is payable on 30 September, 2010. The Dividend Reinvestment Plan (DRP) will operate in respect of this final dividend, with the DRP discount unchanged at 2.5%. The DRP share price will be determined over the period 19 August to 1 September, 2010 inclusive.

Mr Sedgwick said "Crane Group expects to post improved results for FY11. As we stand today, all of our business units have strong market positions, experienced management and clear strategic direction."

## Financial Overview

Revenue for the 12 months ended 30 June, 2010 was \$1,863 million, down 12% on last year.

Segment Earnings of \$70.4 million were 32% lower than last financial year, with lower earnings in Pipelines partially offset by higher earnings in Trade Distribution and Industrial Products. Total EBIT for the Group was down 26% and equity accounted earnings were down 64% compared with last financial year. Net profit after tax, before significant items of \$36.8 million, was down 35% on last year, in line with guidance. Earnings per share (before significant items) of 48.2 cents were down 42% on last year.

A significant item expense of \$4.9 million after tax was incurred during the year relating primarily to the accounting impact of tax changes recently enacted in New Zealand and business restructuring initiatives in that country.

Segment cash flow (cash flow from operations after capital expenditure) of \$104.8 million was \$14.3 million lower than last year but a noteworthy performance. Working capital improvements and lower capital expenditure largely offset the impact of lower earnings. Net capital expenditure for the year was \$9.3 million, down \$17.6 million on last year, reflecting lower capital requirements in all business units but particularly in Pipelines.

Net debt at 30 June, 2010 was \$154 million, a decrease of \$62 million since 30 June, 2009. Lower interest and tax payments and the strong segment cash flow mentioned above were the principal contributors to the debt reduction. Gearing of 19.0% (measured as net debt to net debt plus equity) is well below Crane Group's target range of 30% to 40%, providing capacity to finance future growth of the business. Net financing costs for the year were \$19.5 million, down 35% on last year.

## Results by Division

For the 12 months to 30 June	Segment Revenue		Segment Earnings**	
	2010* \$million	2009 \$million	2010* \$million	2009 \$million
Pipelines	504.5	680.8	37.1	77.4
Tradelink	902.4	912.4	41.0	34.7
CDNZ	300.7	346.8	0.8	3.3
Industrial Products	299.8	325.0	8.1	5.8
Intercompany and unallocated	(144.0)	(146.7)	(16.6)	(17.3)
<b>Total</b>	<b>1,863.4</b>	<b>2,118.3</b>	<b>70.4</b>	<b>103.9</b>

\* The financial information for the year ended 30 June 2010 is unaudited and has been derived from the Crane Group draft financial report for 30 June 2010.

\*\* EBIT, including equity accounted earnings after tax for Pipelines.

## **Pipelines**

Pipelines had a difficult year, experiencing lower margins and soft demand in a number of key markets, particularly civil construction and mining. Sales were down 26% compared with last year, with all market sectors delivering lower sales. Demand improved in the second half of the financial year in the building and rural markets but a number of mining projects remain on hold pending clarification of the proposed tax changes in the resources sector. The outlook for the mining sector for the coming year however, has improved.

Segment earnings from Pipelines (which include after tax equity accounted earnings from the Group's 40% investment in Mitchell Water Australia) were \$37.1 million, down 52% compared with last year. EBIT from wholly-owned businesses was down 49% to \$31.4 million for the year. After tax equity accounted earnings from Mitchell Water Australia were \$5.7 million, down from \$15.9 million last year, as the Wimmera Mallee project concluded in April 2010.

In addition to the cost reduction programme underway since last year, Pipelines has continued to pursue business improvement initiatives to combat the effects of the decline in overall market demand. Particular focus has been given to improving sales force effectiveness and further embedding lean manufacturing practices in Pipelines' production sites. In the medium term the business is expected to benefit from stronger residential and mining markets and the emergence of new market opportunities such as the Coal Seam Gas sector.

### ***Trade Distribution***

As with the performance in the first half-year, the full-year result for Trade Distribution reflected the divergent market environments in Australia and New Zealand. In Australia, Tradelink delivered an 18% increase in EBIT on marginally lower sales, while in New Zealand CDNZ posted a significantly lower result than last year in a difficult housing market. Overall, revenue at Trade Distribution was down 5% but EBIT was up 10% compared with last year.

#### Tradelink

Tradelink delivered a strong performance for the year with earnings and margins up despite a small decline in revenue. Sales of \$896 million represented a decrease of 1% compared with last year. Same store sales were also down 1% compared with last year due to lower sales in the Western Australian and Queensland markets which offset improved conditions in New South Wales, Victoria and South Australia.

Tradelink delivered EBIT of \$41.0 million, up 18% on last year. EBIT margin grew from 3.8% last year to 4.6% this year as cost reductions and the benefits from the business improvement programme outweighed the impact of slightly lower sales.

In the coming year Tradelink will continue to focus on improving its product and service offering, growing sales of its exclusive products and developing its store network.

#### CDNZ

CDNZ recorded sales for the year of \$298 million, down 14% on last year, while EBIT for the period of \$0.8 million compared with \$3.3 million last financial year. The business battled difficult market conditions all year but made good inroads with respect to sales force effectiveness, expense reduction and improving its service offering.

Reflecting the positive impact of these measures, CDNZ delivered EBIT of \$1.7 million in the second half of the financial year having recorded a small trading loss in the first half. Sales in the second half were similar to those recorded in the first half but the profit improvement initiatives undertaken across the business helped to lift earnings. These measures should deliver further improved results in the coming year.

### ***Industrial Products***

The Industrial Products business comprises the former Metals Distribution and Copper Tube operations of Crane Group. The business produced a much improved earnings result in FY10 despite lower revenue. Sales of \$297 million were down 8% on last year with lower volumes more than offsetting the positive revenue impact of rising commodity prices.

EBIT of \$8.1 million for the period was up 38% on last year. The key drivers of the result were improved margins in the second half of FY10 compared with the previous corresponding period and a solid result from the New Zealand metals distribution business after its significant restructure in FY09. Conditions in this business are expected to remain volatile in the coming year as commodity prices respond to global economic factors.

## **Significant Items**

The full year result included \$4.9 million after tax of significant item expense. The composition of this expense is set out in the table below.

<b>Significant Items after tax (\$'millions)</b>	<b>1<sup>st</sup> Half FY10</b>	<b>2nd Half FY10</b>	<b>Total FY10</b>
Restructuring Costs	2.0	(0.5)	<b>1.5</b>
Asset Impairment	0.1	0.2	<b>0.3</b>
Accounting impact of New Zealand tax changes	-	3.1	<b>3.1</b>
<b>Total</b>	<b>2.1</b>	<b>2.8</b>	<b>4.9</b>

The largest significant item for the period is a non-cash accounting adjustment of \$3.1 million relating to tax changes enacted by the New Zealand Government in its 2010 budget. The accounting requirement to reflect future non-deductibility of building depreciation as a liability on Crane Group's balance sheet accounts for \$2.8 million of this amount. A restatement of the values of tax assets and liabilities arising from a reduction in the New Zealand company tax rate from 30% to 28% accounts for the remaining \$0.3 million.

The restructuring costs incurred during the year related primarily to rationalisation initiatives at CDNZ. These costs were partially offset by the write-back of some prior year rationalisation provisions that are no longer required. Asset impairment charges arise from regular impairment testing of the Group's assets and relate primarily to impairment of branch assets at some New Zealand store locations.

## **Safety**

The Group continues to focus on improving its safety performance. This year a number of business units concluded Hazard and Operability (HAZOP) studies and commenced process safety reviews of their more hazardous production processes. This was in addition to regular risk mitigation activities centred on personal safety. The number of incidents across the Group continued to fall with 11 fewer lost time injuries and 24 fewer medically treated injuries compared with last year. Workers compensation costs were 16% below last year, reflecting the continued improvement in Crane Group's safety performance.

## **Outlook**

Economic conditions in both Australia and New Zealand became more stable as the 2010 financial year progressed. Most forward indicators suggest that moderate growth is expected in Australia in FY11, with good growth expected in housing, mining and manufacturing. We are expecting no further market contraction in New Zealand in FY11.

Whilst it is too early in the new financial year to forecast performance definitively, at this stage Crane Group expects that net profit after tax, before significant items for FY11 will be higher than that recorded in FY10. The extent to which earnings may be higher next year will depend in large part upon improvements in demand for pipeline products in the resources and civil construction sectors. Based on the expectation of improved conditions across a number of market segments, the profit performance of all three business units is expected to improve in the year ahead. All of the Group's business units have strong market positions, experienced management and clear strategic direction.

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## Financial Summary

<b>For the 12 months to 30 June</b>	<b>2010*</b>	<b>2009</b>	<b>% change</b>
Revenue (\$m)	1,863.4	2,118.3	-12.0
Earnings before interest, tax, depreciation, amortisation and significant items (EBITDA) (\$m)	96.8	122.0	-20.6
Earnings before interest, tax and significant items (EBIT) (\$m)	64.7	88.0	-26.5
Net financing costs (\$m)	(19.5)	(29.9)	-34.9
Share of profit of equity accounted investments (\$m)	5.7	15.9	-64.2
Tax expense (\$m)	(14.1)	(17.6)	-20.1
Minority interests (\$m)	-	-	-
<b>Net profit after tax before significant items (\$m)</b>	<b>36.8</b>	<b>56.4</b>	<b>-34.7</b>
Significant item gains/(losses) after tax and minority interests (\$m)	(4.9)	(12.8)	-
Net profit after tax (\$m)	31.9	43.6	-26.8
Earnings per share before significant items (cents)	48.2	82.8	-41.8
Basic earnings per share (cents)	41.7	63.9	-34.7
Total dividend per share (cents – fully franked)	40	63	-36.5

\* The financial information for the year ended 30 June 2010 is unaudited and has been derived from the Crane Group draft financial report for 30 June 2010.