

# Crane Group Limited

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## ASX and Media Release

### Commentary on the Half Year Result to 31 December, 2009

15 February, 2010

#### CRANE GROUP ANNOUNCES AN \$18 MILLION HALF YEAR PROFIT

Building and industrial products company Crane Group Limited (ASX:CRG) today announced an \$18 million net profit after tax and before significant items for the half year ended 31 December, 2009. The result was down 46% on the same period last financial year, in line with guidance provided at the October 2009 Annual General Meeting.

As previously announced, Crane Group's first half performance was impacted by subdued market conditions in its Pipelines and New Zealand Trade Distribution businesses. This was partially offset by cost efficiency gains across all of its businesses.

Crane Group Managing Director, Greg Sedgwick said the continued focus on cash generation and tight management of costs had enabled the Group to weather the difficult market conditions experienced during the half year. "Particularly pleasing was the continued improvement in the performance of Tradelink."

Key elements of the result include:

- Net profit after tax before significant items of \$18 million, in line with guidance;
- Difficult market conditions persisted, with Pipelines impacted by fewer civil and water infrastructure projects and CDNZ affected by the further deterioration in the New Zealand housing and construction market;
- Tradelink continued to grow its EBIT margin despite softer sales;
- Industrial Products improved margins from 2H09 and delivered strong cash flows via its inventory reduction programme;
- Successful implementation of the cost reduction programme, resulting in operating costs being \$50 million lower than the previous corresponding period;
- Strong operating cash flow reducing debt by \$29 million compared with June 2009;
- Gearing at 31 December, 2009 of 22.4%, placing the Group in a solid financial position; and
- An interim dividend of 18 cents per share fully franked.

Mr. Sedgwick said: "Over the past six months the Group has consolidated and built further upon the efficiency gains realised in FY09. This, coupled with continued strengthening of the company's balance sheet, means that Crane Group remains well prepared to benefit from improvements in market conditions."

The Crane Group Board has declared a fully franked interim dividend of 18 cents per share. The interim dividend represents a payout ratio (before significant items) of 76%, consistent with prior year payout ratios. The Record Date for the interim dividend is 1 March, 2010 and the dividend is payable on 9 April, 2010. The Dividend Reinvestment Plan (DRP) will operate in respect of this interim dividend, with the DRP discount unchanged at 2.5%. The DRP share price will be determined over the period 4 March to 17 March, 2010 inclusive.

## **Financial Overview**

Revenue for the six months ended 31 December, 2009 was \$933 million, down 20% on last year.

Segment Earnings of \$34.2 million were down 46% compared with the same period last year, with earnings before interest, tax and significant items (EBIT) down 47% and equity accounted earnings down 38% on last year. Net profit after tax, before significant items of \$18.0 million, was down 46% on the same period last year. Earnings per share (before significant items) of 23.6 cents were down 53% on the previous corresponding period.

A significant item expense of \$2.1 million after tax was incurred during the period relating primarily to continued restructuring initiatives in New Zealand and commencement of the business integration programme in Industrial Products.

Segment cash flow (cash flow from operations after capital expenditure) of \$50.3 million was up \$22.5 million on last year. Working capital improvements and lower capital expenditure more than offset the impact of lower earnings. Net capital expenditure for the period was \$4.8 million, down \$12.2 million on the previous corresponding period.

Net debt at 31 December, 2009 was \$188 million, a decrease of \$29 million since 30 June, 2009. Lower interest and tax payments and the strong segment cash flow mentioned above were the key contributors to the debt reduction. Gearing of 22.4% (measured as net debt to net debt plus equity) continues to track below Crane Group's target range of 30% to 40%, providing capacity to take advantage of future growth opportunities as they arise. Net financing costs for the period were \$9.7 million, down 45% on the corresponding period last year.

## **Results by Division**

For the 6 months to 31 December	Segment Revenue		Segment Earnings*	
	2009 \$million	2008 \$million	2009 \$million	2008 \$million
Pipelines	248.8	385.1	19.3	46.4
Tradelink	459.1	476.1	19.5	19.4
CDNZ	152.1	208.3	(0.9)	2.4
Industrial Products	143.9	191.4	3.6	4.9
Intercompany and unallocated	(70.5)	(95.9)	(7.3)	(10.1)
<b>Total</b>	<b>933.4</b>	<b>1,165.0</b>	<b>34.2</b>	<b>63.0</b>

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

## ***Pipelines***

Of Crane Group's three business units, Pipelines was impacted the most by the downturn in market activity. Revenue in Pipelines for the six months to 31 December, 2009 was \$249 million, down 35% on the same period last year. Sales were down in all market sectors with the hardest hit being water infrastructure and mining, where sales were down by \$46 million and \$34 million respectively compared with the previous corresponding period. Demand in both of these sectors remains soft, although tendering activity in the mining sector has steadily increased since the beginning of the second quarter. The building and rural market sectors are the only areas that have experienced increased demand since 2HFY09, with sales from these sectors up around 5% on the preceding six month period.

Segment earnings (which include after tax equity accounted earnings from the Mitchell Water Australia investment) were \$19.3 million, down 58% compared with the previous corresponding period. EBIT from wholly-owned businesses was down 62% to \$15.4 million for the half year, whilst earnings from Mitchell Water Australia were \$3.9 million, down from \$6.4 million last year.

Pipelines has made good progress during the period in improving its planning processes to ensure that production resources are appropriately aligned to market demand. This has helped to mitigate the impact of the revenue decline experienced over the past 12 months. Given the current low levels of factory utilisation, any material improvement in the profitability of the Pipelines business will be driven by increases in market demand rather than further material expense reductions.

## ***Trade Distribution***

Results within Trade Distribution reflected the divergent market environments in Australia and New Zealand. In Australia, Tradelink maintained earnings and delivered a small improvement in margins, while in New Zealand CDNZ posted a lower result in a difficult housing market. Overall, revenue at Trade Distribution was down 11% and EBIT was down 15% compared with the previous corresponding period.

### Tradelink

Tradelink's performance continued to improve during the period despite softer sales. Revenue of \$459 million represented a decrease of 4% compared with the same period last year. Same store sales were down 4.6% on the previous corresponding period due primarily to contraction in the Western Australian and Queensland building markets. Market conditions deteriorated in Western Australia for the second consecutive half but demand in other States has stabilised, with NSW and Victoria both showing reasonable growth.

Tradelink delivered EBIT of \$19.5 million for the period, in line with the previous corresponding period. EBIT margin grew from 4.1% to 4.2% as the benefits of the business improvement programme outweighed the impact of lower sales.

Tradelink continues to focus on improving its product and service offering, reducing its cost base and developing its store network. These factors, along with improving conditions in the Australian building industry are expected to contribute to improved performance from Tradelink for the balance of FY10.

### CDNZ

Activity levels deteriorated further during the period as the New Zealand housing and construction markets declined to levels well below historical norms. Revenue at CDNZ fell 27% to \$152 million for the period. Margins also reduced, resulting in a small trading loss being recorded for the half year.

EBIT for the period was a loss of \$0.9 million, down from the profit of \$2.4 million recorded for the previous corresponding period. The business has been able to reduce significantly its operating costs over the past two years but this has not been enough to overcome the impact of the dramatic downturn in market activity.

The business continues to pursue opportunities to improve efficiencies in the branch network, the supply chain and in overhead expenses.

### ***Industrial Products***

The Industrial Products business comprises the former Metals Distribution and Copper Tube operations of Crane Group. Revenue in Industrial Products for the six months to 31 December, 2009 was \$144 million, down 25% on the same period last year. Revenue was impacted by a combination of lower volume across all market sectors and lower commodity prices.

EBIT of \$3.6 million for the period was down 27% on the \$4.9 million earned last year, reflecting the market conditions outlined above. However margins improved compared with the six months to June 2009 and remained stable compared with the previous corresponding period due to reduced volatility in commodity markets. In addition, the business generated substantial positive cash flow as part of its inventory reduction programme.

### **Safety**

The company's safety performance, in terms of injury rates per million hours worked, has remained stable through the first half of the financial year. The actual number of injuries has however reduced considerably, with a 28% reduction in lost time injuries and a 19% reduction in medical treatment injuries. Workers compensation costs are 17% below last year, reflecting the continued improvement in Crane Group's safety performance.

These achievements are significant given the distraction created by the difficult economic environment and would not have been possible without the continuing focus of Crane Group's employees and management on keeping safety top of mind.

### **Outlook**

Economic conditions in both Australia and New Zealand have continued to pose significant challenges over the past six months. Nonetheless, Crane Group's financial position remains robust and each of the Group's businesses has made good progress in reducing operating costs and improving efficiency.

Broader economic indicators in both Australia and New Zealand have shown some improvement in recent months, although this is yet to manifest itself as a sustained improvement in demand in some key market segments.

Volatility in the broader economy and uncertainty regarding the timing of any sustained recovery in the civil, water infrastructure and New Zealand building markets make it difficult to forecast definitively future performance. The full year earnings performance for Crane Group will be heavily dependent on trading conditions in Pipelines and New Zealand over the balance of the financial year. It is expected that EBIT for the second half of FY2010 will be higher than that recorded in the previous corresponding period, however the Group expects that its net profit after tax, before significant items for the full year will be down approximately 35% compared with last year.

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## Financial Summary

<b>For the 6 months to 31 December</b>	<b>2009</b>	<b>2008</b>	<b>% change</b>
Revenue (\$m)	933.4	1,165.0	-19.9
Earnings before interest, tax, depreciation, amortisation and significant items (EBITDA) (\$m)	46.5	73.8	-37.0
Earnings before interest, tax and significant items (EBIT) (\$m)	30.3	56.6	-46.6
Net interest costs (\$m)	(9.7)	(17.7)	-45.5
Share of profit of equity accounted investments (\$m)	3.9	6.4	-38.3
Tax expense (\$m)	(6.5)	(12.1)	-45.4
Minority interests (\$m)	-	-	-
Net profit after tax before significant items (\$m)	18.0	33.2	-46.0
Significant item gains/(losses) after tax and minority interests (\$m)	(2.1)	(3.1)	-
Net profit after tax (\$m)	15.9	30.1	-47.3
Earnings per share before significant items (cents)	23.6	50.5	-53.3
Basic earnings per share (cents)	20.8	45.7	-54.5
Total dividend per share (cents – fully franked)	18	35	-48.6