
E&A LIMITED

2016 Annual General Meeting



2016 Annual General Meeting
30 November 2016

Agenda: Chairman and Managing Director's Address

1. Market for E&A Subsidiaries Products and Services
2. Strategy to Rebuild Shareholder Value
3. Financial Performance Over the Last Financial Year
4. FY17 first quarter operations update and Outlook for FY17
5. Safety and People Performance
6. Items of Business



2016 At A Glance

Financial

- Revenue \$163m, down 18%
- Statutory Net Loss after Tax of \$19.9m after one-off costs of \$15.5m including goodwill & WIP impairments, bad debt provision and restructuring costs
- Positive operating cash flow for the FY16 second half of \$4.4m
- FY16 result reflects downturn in Mining and Oil & Gas construction sectors and losses relating to finalising two major underperforming construction contracts

Operating

- Zero LTI record extended across all businesses
- Productivity & Profit Improvement Program delivered \$7.2m in savings in FY16. Actual annualised savings now exceed \$13m
- Shift in focus from Construction to Maintenance works reducing risk and improving margins
- \$10.3m collected from disputed claims
- Recurrent work up on prior corresponding period

Strategic

- All loan facilities extended to 31 August 2017
- Major remaining claims now in Mediation & Arbitration phase with outcomes expected in FY17
- Tasman Rope Access business established and growing rapidly
- Improved outlook for Renewable Energy and Defence industries



Market Conditions



Ottoway Fabrication – Solar Tower Fabrication, SA



Market Conditions



Minerals & Energy

- **Iron Ore** prices subdued during majority of CY2016, recent spike to ~US\$80/t (**100% up since Jan 2016**) due to increased Chinese demand and speculated increased US demand under Trump's government
- Recent OPEC production limit, expected to increase **oil prices** between US\$40-US\$50/bbl for CY2016 and **mid-to-high US\$50s/bbl by end of CY2017**



Renewable Energy

- RET approved at **33,000 GWh**
- Expected 6,000 MW new capacity by 2020 **requiring 1,500 wind towers**
- Over **\$40.4 billion of investment** and creation of **15,200 jobs anticipated**
- Slow progress of electricity retailers entering into long-term power purchasing agreements with proposed wind farm owners
- Increased international competition from low-cost manufacturers



Market Conditions



Defence

- Defence White Paper announced **\$195 billion spend of defence capability & equipment**
- 3 major naval defence projects:
 - **12 Offshore Patrol Vessels (\$3 billion spend)**
 - **9 Future Frigates (\$35 billion spend)**
 - **12 Future Submarines (\$50+ billion spend)**

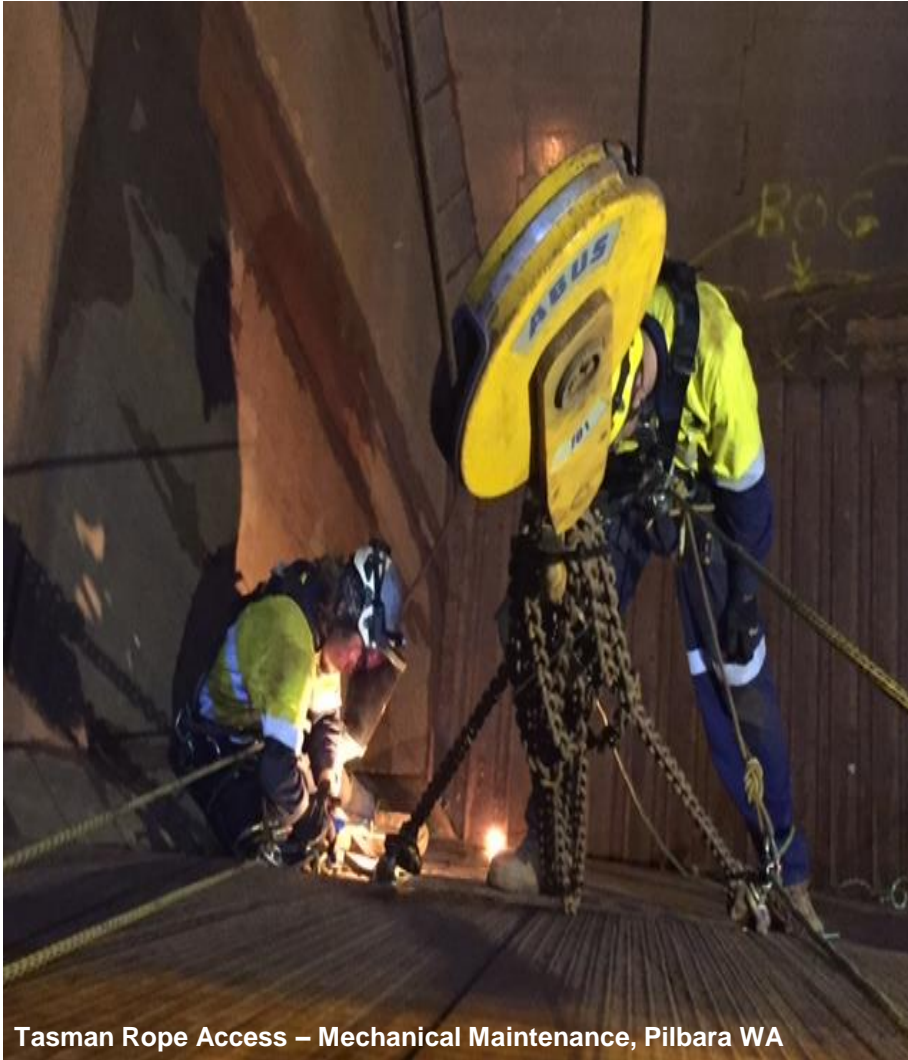


Water

- **Stable outlook for water services**
- Increasingly competitive market impacting margins
- Opportunities in landfill, water & wastewater and resources sectors, but CSG subdued



Rebuilding Shareholder Value



Tasman Rope Access – Mechanical Maintenance, Pilbara WA



Strategy for Rebuilding Shareholder Value

E&A Limited ('EAL') has adopted four major strategies to rebuild shareholder value:

- 1** Two year US\$10m convertible note facility with LIM and the restructure of the term, repayment obligations and borrowing cost of our NAB loan facilities;
- 2** The recovery of the disputed disruption, delay and variation contract claims for their existing carrying value;
- 3** The delivery of an improved EBITDA; and
- 4** The potential sale of one or more of the Group's operating subsidiaries



Strategic Funding Agreement with LIM & Refinance of National Australia Bank Debt

- Secured and drawn down US\$10m LIM facility during FY16
- To date **USD \$0.9m has been repaid**
- The LIM facility is due for repayment on 31 August 2017
- National Australia Bank converted \$31m of EAL's current working capital facilities utilised to fund the disputed contract works to Longer Term Commercial Bill debt
- **National Australia Bank loan facilities were extended to 31 August 2017** prior to 30 June 2016
- EAL intends to utilise the funds recovered from disruption, delay and variation claims to retire both NAB and LIM debt



Recovery of the disputed Disruption, Delay & Variation Contract Claims

- During FY16 EAL has **established an in-house legal and commercial team** together with the **retention of an experienced construction counsel on a permanent basis**
- **\$10.3 million collected** from successful adjudication decisions in respect of the **GELOR** and **NRAH** claims to date
- Ottoway Engineering's '**Roma**' **claim progressed to arbitration** with an outcome expected in FY17
- ICE's '**Mooka**' **claim in mediation phase** with an outcome expected within FY17
- Ottoway Engineering **commenced proceedings against Pooncarie Operations Pty Ltd** in the Supreme Court of New South Wales on 14 November 2016 **in relation to its 'Snapper' claim**
- EAL has an **unwavering commitment to the prosecution and recovery of each of its legitimate and rightful claims for work completed**



The Delivery of an Improved EBITDA

- Ongoing Productivity & Profit Improvement Program ('PPIP') **delivered administration and overheads cost savings of \$7.2 million per annum in FY16. Actual annualised savings now exceed \$13 million.**
- PPIP also addressed internal processes to ensure:
 - **all contracts are more tightly managed, monitored and executed;** and
 - **in-house legal and commercial team together with operational teams are identifying and mitigating risk at the time of contract award as well as dealing expeditiously with contractual issues as they arise**
- Volume of **recurrent maintenance, shutdown and minor upgrade projects increased.** This type of work **offers recurrent revenue, lower risk and is less litigious** than major greenfield construction work
- Established a new maintenance business in October 2015, **Tasman Rope Access**
- Recently **restructured its Ottoway Engineering's operations** to only focus on the following:
 - **Specialist shop fabrication piping and mechanical works;**
 - **Specialist skilled shop and on-site labour hire;** and
 - **Maintenance Contracting.**



The Delivery of an Improved EBITDA

Executive Management Salary Reductions

- As a cost leadership initiative, EAL executive directors with effect from 1 September 2015 **reduced their salaries by a further 10% on their already reduced 10% salary arrangements**
- With effect from 1 January 2016, Mr. **Stephen Young has taken a further significant salary reduction** and one half on my reduced salary is now dependent upon the Company achieving its forecast results
- Mr. Mark Vartuli has taken a **further reduction of 10%**, bringing his combined **total salary reduction to 30%** of his current contractual arrangements



Potential Sale of One or More of the Group's Operating Subsidiaries

- As previously reported, EAL engaged advisors to ascertain interest in a potential purchase of some of EAL's subsidiaries
- The sale of any subsidiary for commercial value is, to a significant degree, dependent upon investor confidence on the outlook for the industries in which the subsidiary operates, and certainty in respect of completed and ongoing contracts, and any obligations arising from the same
- Whilst this process has generated expressions of interest, **no transaction is imminent at this time**



2016 Financial Year in Review



QMM – Crushing Plant, SA



2016 Financial Year in Review

Income Statement

- **Revenue of \$198.6 million, down 18%** on last year
- **Net Loss After Tax of \$19.9m one-off costs of \$15.5m** including goodwill & WIP impairments, bad debt provision and restructuring costs

Cash Flow

- **Net outflow of \$14.6m** from operating activities
- Improved cash generation by way of **net inflow of \$4.4m** from operating activities in closing six months



2016 Financial Year in Review

Net Debt & Gearing

- **Net debt of \$94.6 million** at 30 June 2016
- **Gearing of 77%** at 30 June 2016
- Net debt included drawdown of LIM facilities of US\$10m of which US\$0.9m has been repaid to date
- National Australia Bank, prior to 30 June 2016, agreed to convert \$31 million of current overdraft debt into longer-term commercial bills
- **Debt facilities extended to 31 August 2017**
- Reduction of commercial bill debt has commenced and is further expected to be repaid from the collection of proceeds from the disputed disruption, delay and variation contract claims



2016 Segment Earnings



2016 Segment Earnings

Heavy Mechanical & Electrical Engineering

- Comprises Ottoway Engineering, Ottoway Fabrication and ICE Engineering
- Revenue decreased by 33% impacted by difficult market conditions
- Earnings significantly impacted by one-off costs including goodwill impairment of \$6.1m and provision for disputed debts of \$8.1m primarily relating to Bluenergy CMC

Ottoway Engineering:

- Impacted by problematic contracts (NRAH & Sino Iron Cape Preston with Bluenergy CMC)
- Undertaken projects for AirLiquide at Nyrstar's Pt Pirie & AGL's Torrens Island plants in the second half

Ottoway Fabrication:

- Affected by Arrium Administration & delays in wind tower fabrication projects
- Secured work from Arrium's Administrator, BHPB, Nyrstar and Air Engineering; tendered for number of solar & wind power projects

ICE:

- Continued work in Cooper Basin & Whyalla and won contracts with Air Liquide at Port Pirie and Torrens Island



2016 Segment Earnings

Water & Fluid Solutions

- Comprises Fabtech and Blucher.
- Activity significantly contracted due to mining and coal seam gas construction downturn

Fabtech:

- Lower demand impacted turnover & margins
- Started FY17 with \$23m of work, significantly up on prior year
- Secured Australia's largest geomembrane project in NT

Blucher:

- Weak Queensland market
- Agribusiness sector expansion providing increased opportunities
- New products launch in FY17 expected to improve sales and margin



2016 Segment Earnings

Maintenance Engineering & Plant Construction

- Comprises Tasman Power, Tasman Rope Access, Heavymech and QMM
- Revenue up 34% and earnings rose by 38%

Tasman Power:

- Positive contribution from growing maintenance and shutdown work, however reduced margins

Tasman Rope Access:

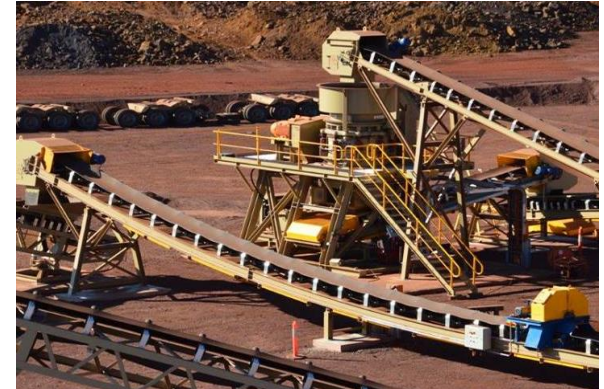
- Established in 2015 as a disruptor of scaffolding industry
- Solid growth and earnings contribution in FY16

Heavymech:

- Subdued breakdown & repair market conditions
- Whyalla division impacted by Arrium Administration
- Improved FY17 outlook

QMM:

- Completed plant construction at Arrium's Iron Baron Mine
- Improved fabrication & construction opportunities in FY17
- Federal Governments 'Roads for the Future' expected to increase quarry material demand



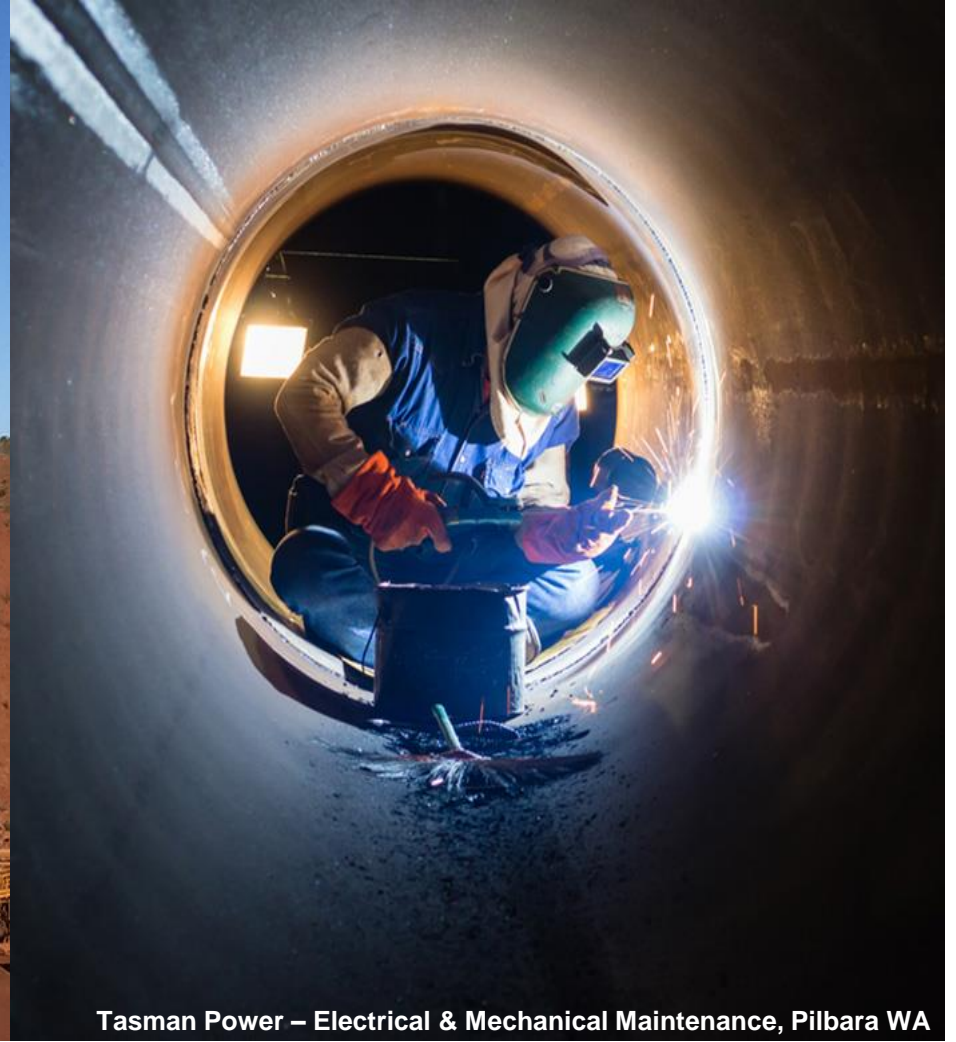
2016 Segment Earnings

Investment & Corporate Advisory

- Comprises Equity & Advisory and the listing and corporate costs of the parent entity, E&A Limited
- Earnings impacted by one-off restructuring costs, expenses relating to establishment of LIM facility and \$0.4m WIP impairment
- Most fee revenue generated from internal sources
- Principle focus of Equity & Advisory staff was internal:
 - Recovery of outstanding contract claims;
 - Refinancing of EAL;
 - Strategic review initiatives; and
 - Implementation of Productivity & Profit Improvement Plan
- This is also expected to be the case for FY17



FY17 First Quarter Trading Update and Outlook



Tasman Power – Electrical & Mechanical Maintenance, Pilbara WA



FY17 First Quarter Operations Update

Overview

- Difficult market conditions experienced last financial year still persist
- Improved trading conditions and performance by several EAL subsidiaries
- EAL has recorded a positive EBITDA in FY17 Q1

Heavy Mechanical & Electrical Engineering

Ottoway Engineering

- Performance adversely impacted by delays in Air Liquide projects and tight margins
- Restructuring business to focus on recurrent maintenance, shutdown and minor upgrade projects

Ottoway Fabrication

- Slower than expected due to Arrium Administration and deferred start dates for wind tower construction opportunities
- Secured Arrium shutdown & labour hire campaigns and fabrication work for Air Engineering and BHP Billiton underwriting FY17 Q2 activity
- Wind tower orders expected during CY2017



FY17 First Quarter Operations Update

Heavy Mechanical & Electrical Engineering (continued)

ICE Engineering

- First quarter in line with budget
- Set for challenging second quarter due to depressed market conditions
- Restructured direct & indirect workforce in accordance to demand
- Won first contract in defence sector, presenting future significant opportunities

Water & Fluid Solutions

Fabtech

- Increased revenue and earnings on back of solid secured work levels
- Project margins remain under pressure

Blucher

- Strong drainage & stainless steel product sales due to increased NSW activity
- New product lines in water and gas pipe solutions expected in FY17 Q3



FY17 First Quarter Operations Update

Maintenance Engineering & Plant Construction

Tasman Power & Tasman Rope Access

- Exceeded turnover and earnings targets
- Continued demand from Pilbara iron ore producers, but margin pressure
- Rope Access services growth to additional sites

Heavymech

- Improved market conditions for breakdown repair & maintenance in Adelaide
- Improved turnover with Arrium, but long-term outlook uncertain in Whyalla

QMM

- Activity levels improved, however turnover impacted by weak demand
- Margins affected by strong competition
- Various plant upgrade opportunities throughout FY17

Investment & Corporate Advisory

- Equity & Advisory's focused on implementing the strategy to rebuild shareholder value for E&A Limited supplemented by minor M&A mandates



FY17 Outlook

Overview

- Various **disputed claim outcomes** and **reduction of debt** expected in FY17
- EAL has **commenced FY17 with a significant improvement in the value of committed recurrent and project work** as compared to FY16

Minerals & Energy

- **Recent improvements in mineral and oil prices** have provided a number of **indicators of a recovery**
- **Significant improvements budgeted** from several EAL's subsidiaries during FY17
- **Increased earnings contribution expected** from growth of the **Tasman Rope Access** business



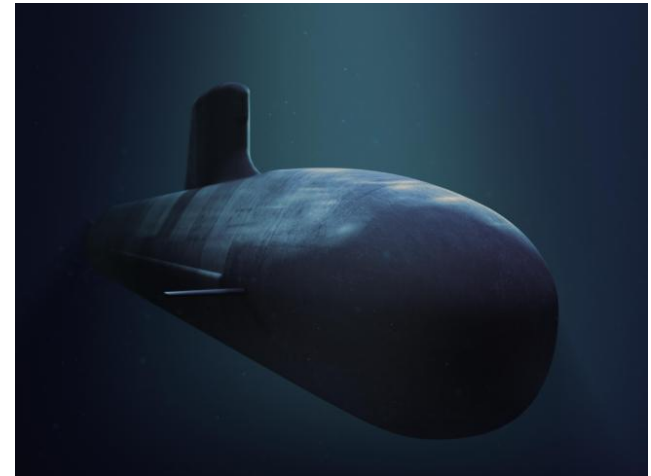
FY17 Outlook

Renewable Energy

- EAL is well positioned to capitalise on the anticipated surge of activity expected from RET for approximately **1,500 wind towers for at least the next 4 years to 2020**
- **Order intake expected during CY2017**

Defence

- In the longer-term, EAL expects to benefit from the announced **\$88 billion of defence shipbuilding budget** for:
 - 12 offshore patrol vessels;
 - 9 Future Frigates; and
 - 12 Future Submarines
- majority of assembly work forecast to be **undertaken from EAL's home state of South Australia**



Safety & Our People



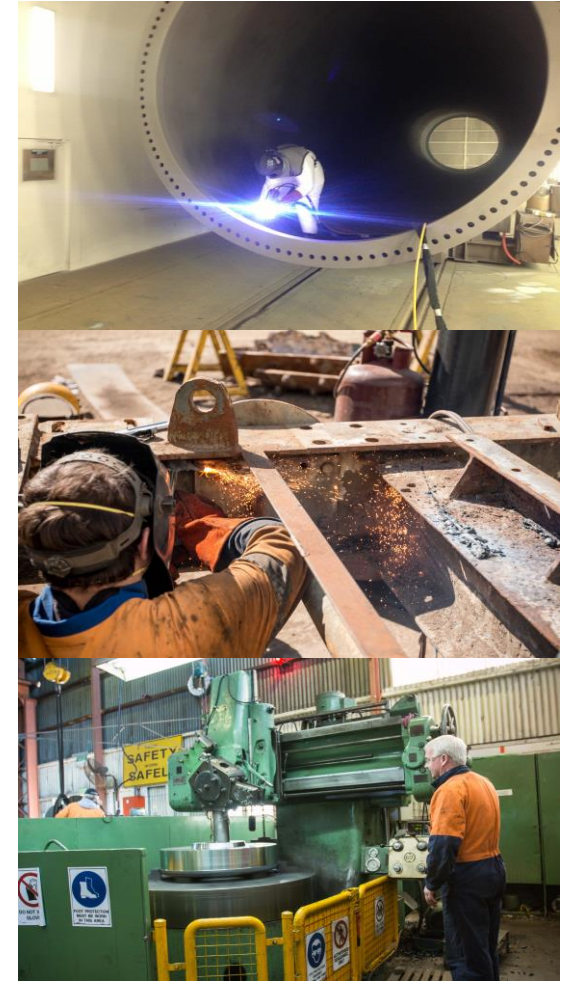
Fabtech – Dam Lining, SA

Safety & Our People

Outstanding Safety Performance

E&A Limited's safety performance resulted in significant milestones, during FY15 and as at 15 November 2016:

Subsidiary	LTI Free Days	LTI Free Hours Worked
ICE	3,759	>1,850,000
Fabtech	2,605	>1,770,000
QMM	2,489	>500,000
Ottoway Engineering	2,265	>2,900,000
Ottoway Fabrications	2,192	>1,280,000
Tasman Power & Tasman Rope Access	1,971	>1,300,000
Heavymech	1,406	>190,000

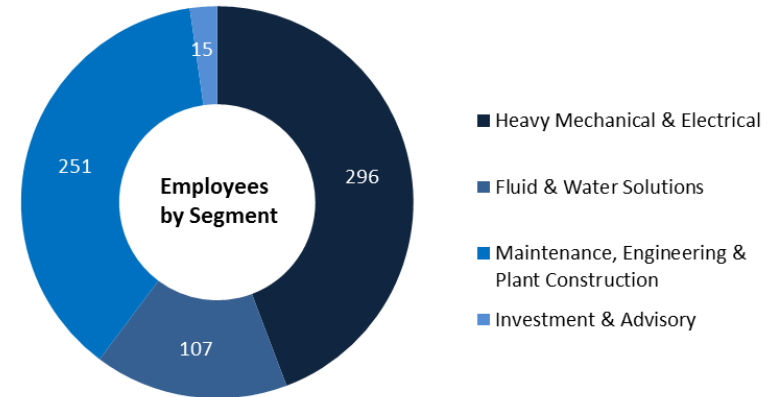
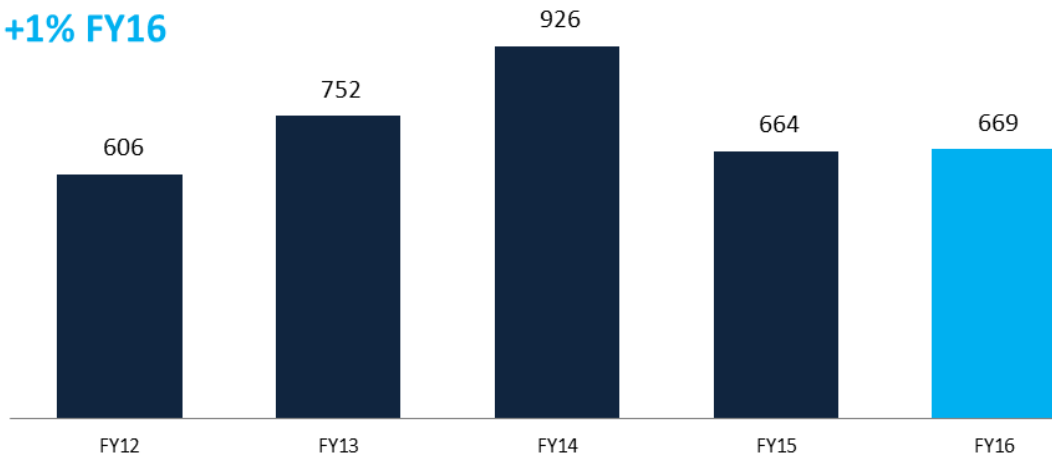


Safety & Our People

People Performance

Employee Numbers

+1% FY16



- **Direct and indirect labour costs reduced** in line with the market demand
- **Total employee numbers of 669** comparable with prior year due to increase of contractual wins and work commitments particularly for Tasman Power, Tasman Rope Access and Fabtech in the second half of FY16
- **Self-insurance status** for South Australian Operations **extended for a further term of two years**



Items of Business



ICE Engineering – Electrical & Instrumentation Works, Port Bonython SA



Items of Business

Financial Report

Resolutions

1. Adoption of the Remuneration Report
2. Re-Election of Mr. Michael Terlet and Mr. Mark Vartuli as Directors



Resolution 1: Remuneration Report

Shareholders are requested to consider and if thought fit, pass the following resolution as an ordinary resolution.

“That the remuneration report, forming part of the Company’s 2016 Annual Report, for the financial year ended 30 June 2016 is adopted”

The Directors recommend that shareholders vote in favour of the resolution to adopt the Remuneration Report.

The total number of valid proxy votes exercisable in respect of this item of business is **4,523,670** votes. Of these, **3,497,044 (77.31%)** have been directed to vote for the resolution, **875,557 (19.36%)** against, and **151,069 (3.34%)** remain open in favour of the Chairman, and I intend to vote these proxies in favour of the resolution.



Resolution 2a: Re-election of Director Mr Michael Terlet

Shareholders are requested to consider and if thought fit, pass the following resolution as an ordinary resolution.

“That Mr Michael Terlet, being a Director retiring from office in accordance with Clause 40.2 of the Company Constitution, and, being eligible offering himself for re-election, be re-elected as a Director of the Company.”

The Directors recommend that the shareholders vote in favour of Mr Terlet’s re-election.

The total number of valid proxy votes exercisable in respect of this item of business is **82,413,170** votes. Of these, **82,155,323 (99.69%)** have been directed to vote for the resolution, **216,778 (0.26%)** against, and **41,069 (0.05%)** remain open in favour of the Chairman, and I intend to vote these proxies in favour of the resolution.



Resolution 2b: Re-election of Director Mr Mark Vartuli

Shareholders are requested to consider and if thought fit, pass the following resolution as an ordinary resolution.

“That Mr Mark Vartuli being a Director retiring from office in accordance with Clause 40.2 of the Company Constitution, and, being eligible offering himself for re-election, be re-elected as a Director of the Company.”

The Directors recommend that the shareholders vote in favour of Mr Vartuli's re-election.

The total number of valid proxy votes exercisable in respect of this item of business is **82,413,170** votes. Of these, **82,155,323 (99.69%)** have been directed to vote for the resolution, **216,778 (0.26%)** against, and **41,069 (0.05%)** remain open in favour of the Chairman, and I intend to vote these proxies in favour of the resolution.



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