



ASX Announcement

Monday 16 June 2014

Market Update and USA Distribution Announcement

SubZero Group Limited (ASX: SZG) has today provided a market update on FY14 forecast performance, future outlook and new business developments. The Company now expects revenue for FY14 to be in the range of \$70.0m to \$75.0m with underlying EBITDA of \$2.0m to \$2.5m. In our last update in April we indicated that we expected to be in the low end of our target range subject to our expectations for an increase in work from our major clients in the Hunter Valley and income from joint venture businesses. This has not occurred to the extent we anticipated. Primarily this has been a result of deferred procurement and longer than anticipated lead times.

Given recent trends, client forecasts and expected joint venture profitability the Company continues to maintain its FY15 forecast of \$150m revenue/ \$20-\$22m EBITDA and will provide an update when the full year results are announced in late August.

Performance for the Company's core operating divisions (Mechanical, Structural and Production) has not met expectations over recent months despite a strong order book and project pipeline. Market conditions have remained subdued and this has resulted in slower project ramp-ups, lower levels of planned preventative maintenance and lower utilisation for the Company's wet and dry hire equipment fleets. This has been partially offset by more unplanned breakdown maintenance and improved demand for labour hire. Additionally the automotive services in both Muswellbrook and Moranbah are now delivering record performances.

The revenue trends over the last quarter show sustained improvement in comparison to the sales performance of the prior two quarters, which supports the company's outlook for FY15. Mechanical maintenance demand is expected to improve sharply in FY15 with the long awaited power-train rebuild program finally getting underway in July. Likewise, the Structural division is seeing additional numbers of 'truck bodies, buckets and shovel dippers' being received for repair. The dry hire fleet is expected to be fully utilised by the end August and the company is optimistic of winning additional pending production contracts.

Product sales associated with the Hydraulic Isolator range continue to grow. Projected sales into both Western Australia and Queensland along with the 'home' Hunter Valley market in FY15 are both significant and encouraging. Hydraulic Isolator expects to be engaged to provide a major installation to a port loading facility in Queensland and is in the final stages of negotiations with a major Western Australian mining client over a whole of fleet installation program.

Following on from the announcement of the Harness Master International (HMI) Joint Venture in May, SubZero is pleased to announce the formalisation of a distribution and royalty agreement for the USA. This agreement provides for an upfront FY14 royalty fee of \$5m payable to HMI and \$3m in each of FY15 and FY16. SubZero will take a prudent view on profit recognition, booking the FY14 royalty payment evenly over the FY15 year. The distribution agreement is an opportunity for HMI to access the \$40billion US market. SubZero owns 50% of HMI and has the majority of directors.



Commenting on the market update, SubZero CEO, Scott Farrell, said “whilst this update contains disappointing news on FY14 performance it is not dissimilar to the mining services sector as a whole. Despite this, I am encouraged by the trends from within the business and the support of our clients that support our view on FY15. The expansion of the Hydraulic Isolator and Harness Master businesses is very pleasing and reflects the hard work we have put into revenue diversification in the last year. We are extremely enthusiastic about the opportunity that comes from expanding our product sales. These niche product offerings act as an entry point into new markets to test acceptance and initiate a post sales service offering from the core business. To date this strategy has exceeded our expectations within Australia and the appointment of the first international distributor shows encouraging signs of acceptance internationally.”

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About SubZero Group Limited

The SubZero Group carries on an established mining service business based in the Hunter Valley, New South Wales. Its clients are almost exclusively involved in the Hunter Valley thermal coal mining industry. SubZero Group's services include Mechanical Support (on and off-site mining machinery support), Structural Support (on and off-site engineering support) and Production Support (mining production support). SubZero has a presence in over 25 coal mines and over 90 clients including Rio Tinto, BHP Billiton and Xstrata. Further information can be found at the SubZero website: <http://subzeroservices.com.au/>