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**RCR ANNOUNCES FY18 RESULTS AND A CAPITAL RAISING TO STRENGTHEN BALANCE SHEET****KEY POINTS**

- Bruce James appointed Interim CEO
- FY18 Results
  - Revenue of \$2.0 billion, up 58%<sup>1</sup>
  - Statutory net loss after tax of \$16.1 million
  - Loss largely driven by cost overruns experienced on the Daydream and Hayman Solar Farms project ("Project")
  - Underlying EBIT<sup>2</sup> loss of \$4.2 million, including cumulative write-downs of \$57 million from tendered margin on the Project
  - Net cash of \$54.8 million as at 30 June 2018 before post balance date expected cash outflows of:
    - \$35 million relating to cost overruns at the Project; and
    - \$30 million relating to cash received from customers for equipment in FY18, which will be paid to suppliers
- Order Book of \$1.1 billion, down 21%<sup>1</sup>
- Preferred Contractor Status of \$2.7 billion, up 69%<sup>1</sup>
- FY19 guidance of Underlying EBIT<sup>2</sup> in the range of \$40 million to \$48 million (reflecting the adoption of AASB 15, which is estimated to reduce Underlying EBIT by \$8 million to \$10 million on a comparable basis with AASB 111 - no impact to cash flows)
- \$100 million underwritten pro-rata accelerated non-renounceable entitlement offer of fully paid ordinary shares in RCR ("Entitlement Offer") to strengthen balance sheet
- Additional \$25 million of working capital facilities available
- Safety performance improved by 62% to a Lost Time Injury Frequency Rate ("LTIFR") of 0.30 per million man hours

**FY18 RESULTS AND IMPACT OF COST OVERRUNS – OVERVIEW**

RCR Tomlinson Ltd (ASX: RCR) ("RCR" or "Company") today announced its FY18 results, with revenue from continuing operations of \$1,998.5 million, up 58.2% on the prior comparative period, Underlying EBIT loss of \$4.2 million, including \$57 million in cumulative write-downs on the Project, and a statutory net loss after tax of \$16.1 million.

<sup>1</sup> Percentage changes indicated above relate to the prior comparative period and are based on continuing operations.

<sup>2</sup> Underlying EBIT (earnings) is derived from statutory profit after excluding discontinued operations and non-recurring costs such as restructuring costs, legacy legal and claims costs, transaction costs and capital management initiatives. Underlying Earnings are a key financial indicator used to reflect greater understanding of RCR's underlying business performance. See RCR's FY18 Audited Financial Report for additional information.

RCR has undertaken a comprehensive review of the Project, which experienced significant cost overruns due to several compounding project-specific issues. This has resulted in cumulative write-downs of \$57 million from tendered margin for the Project. A large proportion of the write-downs were only recently identified. The Project is now substantially complete and currently undergoing commissioning.

Aside from the cost overruns experienced at the Project, RCR continues to operate across a large number of projects which, typical of a contracting business, experience some variance to tendered margins.

The Board of Directors of RCR ("Board") have declared that there will be no final dividend (vs 6.0 cents per share for the previous year).

As announced on 7 August 2018 by the Company, Non-Executive Director, Mr Bruce James, has been appointed as Interim Chief Executive Officer. Mr James has extensive experience in contracting businesses across the infrastructure, resources, oil & gas, defence and energy sectors, including as Chief Executive Transfield Services (ANZ) and Chief Executive Transfield Services (Resources and Energy).

RCR's safety performance demonstrates our ongoing focus on maintaining a strong safety culture. For the year ending 30 June 2018, through the commitment of our employees, RCR has again seen its LTIFR improve by 62% to 0.30 per million man hours.

Further details on RCR's FY18 Results and financial position are set out in the Company's FY18 Audited Financial Report which accompanies this announcement.

The Board is working with RCR's Management, now being led by Mr James, to take immediate action to enhance the Company's systems and to re-position the Company towards a more acceptable risk profile. An important element of RCR's near term strategy is to focus on projects that use 'alliance style' contracting models, which are more working capital intensive, but offer a more favourable risk allocation to RCR as the contractor and should provide a higher degree of margin predictability relative to fixed price Engineering, Procurement and Construction ("EPC") contracts.

With the support of our existing financiers and the underwritten Entitlement Offer, RCR is in a strong financial position, trading on a business as usual basis, and is well placed to deliver for its customers and shareholders.

*RCR's Interim CEO, Bruce James said, "the financial impact from the Project was clearly disappointing, however, the outlook for the business remains positive."*

*"Operationally, we will be implementing several actions to strengthen the business, which include the establishment of a Project Controls Group reporting to the CEO, regular audit of cost control structures on all projects and standardisation of key processes in the engineering and construction of our renewable energy projects. There will also be additional oversight at the pre-contract stage to reduce potential project risks."*

*"RCR appreciates the support that its customers and shareholders have provided through this challenging period and with the Entitlement Offer and support from our financiers announced today, we can move forward in a position of strength."*

*“Our primary focus in the near term will be on consolidation and re-positioning the Company towards a more acceptable risk profile. We see significant opportunity to achieve this across many of our key sectors, particularly by shifting the project portfolio towards 'alliance style' contracting models, which typically provide a higher degree of margin predictability relative to fixed price EPC contracts.”*

*“In recent months, RCR has secured new contracts in water, rail, property services and resources, bringing the current Order Book to \$1.1 billion and we are also the preferred contractor for over \$2.7 billion in new projects, either currently under negotiation or under an ECI process.”*

#### **CAPITAL RAISING – ENTITLEMENT OFFER TO STRENGTHEN BALANCE SHEET**

RCR has today announced an Entitlement Offer to raise approximately \$100 million to strengthen the balance sheet and address the financial impacts of cost overruns at the Project. Details on the Entitlement Offer are set out in a prospectus which was lodged by RCR with ASX on 28 August 2018.

#### **PROJECT UPDATE**

The Company provides the following update on the Project, the outcomes of the internal investigation conducted in relation to the Project, and actions taken by the Board.

In August 2017, RCR was appointed as contractor for the EPC and Operation and Maintenance of the contiguous 150MWac Daydream and the 50MWac Hayman Solar Farms located in Northern Queensland, with a contract value on award of \$315 million.

Construction of the Project is substantially complete, and energisation and commissioning has commenced.

The Project has experienced significant cost overruns due to several compounding project-specific issues, including external delays and materially worse sub-surface ground conditions than were allowed for in the tender estimate, as well as adverse weather conditions. These project-specific issues required the Company to continuously revise its execution methodologies to mitigate delays, leading to increases in subcontractor costs (both people and plant) and logistics cost overruns.

As a result of these cost overruns that arose over the life of the Project, RCR has realised cumulative write-downs of \$57 million from the tendered margin on the Project.

A large proportion of the write-downs experienced were only recently identified. This was due to the on-site procedures adopted by a limited number of site personnel which had the effect of circumventing RCR's standard processes and project level systems relating to procurement commitments.

A comprehensive internal investigation into the circumstances surrounding the cost overruns at the Project has been completed, and several actions and additional measures are being implemented to mitigate the risk of project level systems being circumvented and cost overruns going undetected in the future.

As part of the FY18 group audit, and in response to the issues identified at the Project, additional procedures were conducted by Deloitte Touche Tohmatsu (“Independent Auditor”) in relation to the Project and RCR’s cost management systems and procedures. The Independent Auditor has issued an unqualified audit opinion in relation to RCR’s FY18 result. The audit opinion includes an emphasis of matter due to the loss for the year and other matters as set out in RCR’s FY18 Audited Financial Report around the Project and ongoing financing. The audit opinion is modified, but not qualified, in respect of this matter, which would be resolved by completion of the Entitlement Offer and financiers support announced today.

### **BANKING ARRANGEMENTS**

At 30 June 2018, the Company held Net Cash of \$54.8 million, before post balance date expected outflows of \$35 million relating to the cost overruns at the Project and \$30 million relating to cash received from customers for equipment in FY18, which will be paid to suppliers in FY19.

While the Company is in compliance with all financial covenants under its debt facilities, to avoid uncertainty around any potential covenant breach following release of the FY18 results, the Company has proactively secured the continued support of its finance syndicate. All financiers have confirmed that in calculating the group’s net profit for the 30 June 2018 calculation date and each quarterly calculation date up to and including 30 June 2019, the Company may add back to EBITDA<sup>3</sup> the cost overrun impact of the Project of an amount up to \$50 million<sup>4</sup>.

In addition, the Company has also secured an increase in its working capital facilities of \$25 million<sup>5</sup>, which can be drawn for working capital purposes, with a corresponding reduction in the bank guarantee facility of \$25 million.

On request of its financiers, RCR has undertaken to commission an external review of the Project by an independent accounting firm.

### **STRATEGIC FOCUS**

RCR’s primary strategy is to provide engineering, construction and maintenance solutions in infrastructure, energy and resources markets in Australia, New Zealand and South East Asia. RCR is ideally positioned in a range of growing markets, including the rail and transport, energy, water, renewables, resources and property services sectors.

In the last 12 months, RCR’s revenue has been largely derived from fixed price EPC contracts, which expose RCR to potential risks including project delays, unanticipated increases in the cost of delivering the project and high working capital requirements in the later stages of the project. Cash receipts on these contracts are dependent on certain milestones being met, which may cause timing differences from a cash collection point of view.

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<sup>3</sup> EBITDA, as defined in the Syndicated Facility Agreement.

<sup>4</sup> Amongst the conditions for this support continuing will be RCR receiving no less than \$50 million of proceeds from the Entitlement Offer.

<sup>5</sup> An additional \$22 million is available for working capital, increasing to \$25 million on receipt of at least \$50 million of proceeds from the Entitlement Offer.

Under the leadership of Mr James, RCR will re-position towards a more acceptable risk profile. To achieve this, RCR's near term strategic objectives will be focused on:

- Consolidating existing operations, successfully completing current projects and carefully assessing near-term opportunities with a focus on contracting with well-known counterparties and projects with a more acceptable risk profile;
- Increasing exposure to the rail and transport sectors. RCR is currently tendering for several major rail and tunnel projects across Australia and New Zealand, and is well placed to benefit from the significant opportunities in these sectors;
- Selectively pursuing opportunities in the renewables sector. The strong pipeline of solar opportunities and RCR's market position in this sector means the Company is well placed to be more selective about counterparties, project size, project risk profile and project margin; and
- Shifting the project portfolio towards 'alliance style' contracting models, which involve higher working capital requirements, but offer a more favourable risk allocation to RCR as the contractor and therefore should provide a higher degree of margin predictability.

RCR will continue to invest in broadening its engineering-led offerings, developing partnerships with technology leaders, and maintaining a continuous focus on creating *Engineering Intelligence™* solutions that enhance customer value.

## OUTLOOK FOR FY19

Due to the nature of RCR's business, the Company does not generally provide earnings guidance. However, the RCR Board believes that consensus analyst forecasts for the Company's revenue and earnings for FY19 are not materially in line with the Company's current expectations, and do not reflect the adoption of the new accounting standard for revenue recognition (AASB 15), which came into effect for RCR on 1 July 2018.

RCR is currently targeting FY19 Underlying EBIT in the range of \$40 million to \$48 million<sup>6</sup> under AASB 15.

Underlying EBIT under AASB 15 is expected to be approximately \$8 million to \$10 million lower than may have been achieved under the previous standard (AASB 111), due to changes in the timing of revenue recognition and changes in the treatment of tender costs. The application of AASB 15 is not expected to have an impact on the Company's cash flows.

With the near-term focus on consolidation, and based on the expected timing of new project awards, Underlying EBIT is currently anticipated to be significantly weighted to the second half of FY19.

<sup>6</sup> On 1 July 2018, the Accounting Standard AASB 15 for Revenue Recognition comes into effect replacing the previous Accounting Standard AASB 111.

**Assumptions affecting the FY19 outlook**

This FY19 outlook is based on various assumptions, which are summarised below. The assumptions described here do not represent all factors that may affect RCR's financial performance and should be read in conjunction with the risks described in the Company's FY18 Audited Financial Report which accompanies this announcement.

***Revenue***

FY19 revenue is expected to be lower than the previous year due to:

- The timing of new project commencements and existing project completions, with a number of significant projects reaching completion in the first half of FY19; and
- Re-positioning towards a more acceptable risk profile, which in the near term will involve a focus on consolidation, successfully delivering on existing projects and selectively pursuing new opportunities.

Revenue from the Order Book and non-project revenues are anticipated to contribute approximately 60% of the expected revenue for FY19.

RCR is currently the preferred contractor on several projects and on a probability weighted basis, approximately \$350 million to \$400 million is currently expected to convert into revenue in FY19. This is dependent upon the timing of contracts and projects commencing and proceeding in accordance with expected timeframes.

Approximately 85% of expected FY19 revenue is forecast to be derived from projects in RCR's Order Book, non-project revenues and Preferred Contractor Status as at 30 June 2018. This is broadly consistent with prior years' forecasts at this point in the annual forecast cycle, although reflects a slightly higher weighting of Preferred relative to Order Book due to the timing of new project commencements.

The remaining revenue is currently expected from current and future tenders and prospects.

Investors should note that revenues, particularly from project work, can vary from expectations for a number of reasons outside of the control of RCR.

***Underlying EBIT***

Current projects have been included at their forecast margins, noting that these could increase or decrease as projects progress. The margins for preferred projects and other tenders and prospects are based upon expected tender margins for each individual project.

A review of RCR's overhead structure is underway with the objective of achieving efficiencies in corporate and divisional overheads. This may improve Underlying EBIT but would incur additional non-recurring costs, which will be identified separately and not included in Underlying EBIT.

RCR has excluded the potential impact of the settlement of variations and claims that are currently being negotiated, or in various dispute resolution processes, with customers and which are recorded on the balance sheet at 1 July 2018 at their expected recoverable amount. Should the actual recovery be higher or lower than expected, the variance will be recorded in the profit or loss account.



The adoption of AASB 15 may result in increased earnings volatility (up or down) due to the higher threshold for recognition of revenue (highly probable that a significant reversal of revenue will not occur) under the new accounting standard. For example, where historically RCR may have recognised the value of a potential variation or claim relating to additional work, the higher threshold for recognition may result in costs being recorded for such work without corresponding revenue until such time as it is highly probable that significant reversal will not occur.

Underlying EBIT is very sensitive to changes in revenue and project margins. A 5% change in revenue may increase or decrease Underlying EBIT by approximately \$11 million. A +/-50 bps change in average project margin across the portfolio could change Underlying EBIT by approximately +/- \$8 million<sup>7</sup>.

### RESUMPTION OF TRADING ON ASX

Based on the contents of this announcement, and other announcements released to the ASX by RCR today, RCR regards the circumstances giving rise to its request for voluntary suspension as being clarified sufficiently. RCR has requested reinstatement for trading of RCR securities on the announcement on the ASX of completion of the institutional component of the Entitlement Offer, expected to be by 10am on Thursday, 30 August 2018.

### FURTHER INFORMATION

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### ABOUT RCR

RCR Tomlinson Ltd (ASX code: RCR) is a diversified engineering and infrastructure company, working with some of the world's leading organisations to provide intelligent engineering solutions to the Infrastructure, Energy and Resources sectors.

RCR's core capabilities encompass development, engineering, procurement, construction, operation and maintenance of major infrastructure, energy and resource projects. RCR has operations across Australia, Asia and New Zealand. Additional information is available at [www.rcrtom.com.au](http://www.rcrtom.com.au).

**E.I. ENGINEERING INTELLIGENCE™. That's What We Do.**

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This announcement is not financial product advice, investment advice or any recommendation (nor tax, accounting or legal advice) nor is it a recommendation to take part in the Entitlement Offer. This announcement has been prepared without taking into account the objectives, financial position and needs of any investor. Before making an investment decision, prospective investors should consider the appropriateness of the information having regard to their own objectives, financial situation and needs and seek appropriate advice, including financial, legal and taxation advice appropriate to their jurisdiction. RCR is not licensed to provide financial product advice in respect of the Entitlement Offer. This announcement is not a prospectus, product disclosure statement or other offering document under Australian law (and will not be lodged with the ASIC) or any other law. This announcement should not be considered an offer or an invitation to acquire entitlements or securities or any other financial products.

<sup>7</sup> The sensitivity analysis is intended to provide a guide and is not intended to be indicative of the complete range of variations that may be experienced. Sensitivity analysis is conducted independently of interrelated effects and does not consider mitigating strategies, which may be adopted by management.

**Foreign jurisdiction restrictions**

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**Non-IFRS**

Certain financial data included in, or incorporated by reference into, this announcement are non-IFRS financial measures under Australian Accounting Standards. These measures may include Net Debt, Revenue, EBITDA, EBITDA Margin, EBIT, EBIT Margin, Gross Margins, Working Capital, Order Book Value, Preferred Tender Value and Backlog. The disclosure of such non-IFRS financial measures in the manner included in this announcement may not be permissible in a registration statement under the US Securities Act. These non-IFRS financial measures do not have a standardized meaning prescribed by Australian Accounting Standards and therefore may not be comparable to similarly titled measures presented by other entities and should not be construed as an alternative to other financial measures determined in accordance with Australian Accounting Standards. Although RCR believes these non-IFRS financial measures provide useful information to users in measuring the financial performance and condition of its business, investors are cautioned not to place undue reliance on any non-IFRS financial measures included in this announcement.

**Summary information**

The information contained in this announcement including, without limitation, any statements, estimates, forward-looking statements or opinions (together, the "Information") contains summary information about the current activities of RCR and its subsidiaries and further, is general in nature and should not be considered to be comprehensive or to comprise all the information which a shareholder or potential investor in RCR may require in order to determine whether to participate in the capital raise, nor does it contain all the information which would be required in a prospectus, product disclosure statement or other offer document prepared in accordance with the Corporations Act. This announcement does not take into account the financial situation, investment objectives or particular needs of any individual person and no Information contained in this announcement constitutes investment, legal, accounting, financial, tax or other advice. Readers or recipients of this announcement should, before making any decisions in relation to their investment or potential investment in RCR, consider the appropriateness of the information having regard to their own objectives and financial situation and seek their own professional advice.

This announcement should also be read in conjunction with RCR's other periodic and continuous disclosure announcements lodged with ASX which are available at [www.asx.com.au](http://www.asx.com.au) including RCR's FY18 audited financial report, which is expected to be lodged with the ASX on or about 28 August 2018. A number of figures, amounts, percentages, estimates, calculations of value and fractions in this announcement are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this announcement. All dollar values are in Australian dollars ("A\$").

**Investment risk**

An investment in RCR is subject to known and unknown risks (including possible loss of income and principal invested), some of which are beyond the control of RCR. RCR nor its respective related bodies corporate or affiliates nor their respective directors, officers, partners employees and agents (together, the "Beneficiaries") guarantee any particular rate of return, repayment or the performance of an investment in RCR nor do they guarantee the repayment of capital from RCR or any particular tax treatment. Cooling off rights do not apply to the acquisition securities in the Entitlement Offer.



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Information in this announcement may be subject to change without notice, does not purport to be complete or comprehensive and has been obtained from or based on sources believed by RCR to be reliable.

The announcement contains certain "forward-looking statements". Forward-looking statements can generally be identified by the use of forward-looking words such as "expect", "anticipate", "likely", "intend", "should", "could", "may", "predict", "plan", "propose", "will", "believe", "forecast", "estimate", "target", "outlook", "guidance" and other similar expressions within the meaning of securities laws of applicable jurisdictions and include, but are not limited to the expected outcome of the Entitlement Offer. To the extent that certain statements contained in this announcement may constitute "forward-looking statements" or statements about "future matters", the information reflects RCR's intent, belief or expectations as at the date of this announcement. Any forward-looking statements, including projections, guidance on future revenues, earnings and estimates, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause RCR's actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. A number of important factors could cause actual results or performance to differ materially from the forward-looking statements. Investors should consider the forward-looking statements contained in this announcement in light of those disclosures and not place reliance on such statements.

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