



4 December 2013

Fiona Murphy  
ASX Compliance Pty Limited  
Level 8, Exchange Plaza  
2 The Esplanade  
Perth WA 6000

Dear Fiona

**Forge Group Ltd ("Forge Group", "Company" or "Entity") – Response to ASX aware query**

We refer to your letter dated 29 November 2013 and respond as follows. We have used the same defined terms as used in your letter.

1. **Does the Entity consider the information in the Announcement to be information that a reasonable person would expect to have a material effect on the price or value of its securities?**

Yes.

2. **If the answer to question 1 is "no", please advise the basis for that view.**

Not applicable.

3. **If the answer to question 1 is "yes", when did the Entity first become aware of some and/or all of the information? In addressing this question can you please confirm whether the Entity became aware of some and/or all of the information in the Announcement prior to making the Trading Halt Request. If the Entity became aware of some and/or all of the information in the Announcement prior to making the Trading Halt Request can you please confirm when this occurred.**

The Entity's normal internal management reporting processes involve, amongst other things, monthly financial project review meetings. These meetings summarise key information for each project and are attended by the Chief Financial Officer, the Chief Operating Officer, the Chief Executives of each business line and various other invitees in each business line relevant to the particular project.

No material financial issues with respect to the Diamantina Power Station (**DPS**) and West Angelas Power Station (**WAPS**) projects were raised during the monthly financial project review meetings until late September 2013.

At the monthly financial project review meetings for DPS and WAPS in late September 2013, it was identified that there was a risk of significant margin erosions on the DPS and WAPS projects as a result of cost overruns and delays. Management immediately implemented a process to identify the potential impact of the issues identified, including:

- commencing a full re-forecast of costs to complete on the DPS and WAPS projects; and
- undertaking parallel negotiations with the customer and subcontractor on the DPS project, which led to a mediation session being arranged over Thursday, 31 October and Friday, 1 November 2013.



Both the re-forecast of the cost to complete and the DPS project negotiations were complex and required significant work from the management team between late September and late October. In particular, the DPS project negotiations and proposed mediation were expedited with co-operation from the customer and key sub-contractor.

In late October, management briefed the Board on the possible project writedowns and on a range of potential outcomes pending the determination of the negotiations with the customer and key sub-contractor on the DPS project. While it was noted by management and the Board that there was the potential for variation from the original forecasts for the WAPS and DPS projects, ranging from maintenance of projected profit through to potential losses on the projects, the likely scope of that variation for the DPS project was not able to be identified with any degree of certainty until the outcome of the mediation was known. In addition, at that time management was unable to accurately quantify the possible remedial costs to complete the projects. Throughout this process, management remained of the view that there was a reasonable likelihood that a material writedown of the projects would not be necessary. The Board was kept informed of the status of the re-forecast process and negotiations during this process and instructed management to provide an update immediately following the proposed mediation session.

At the conclusion of the mediation session on Friday, 1 November 2013, management concluded that the Entity was unlikely to recover certain key items the subject of contract claims. After the mediation session, management concluded that a material profit writedown was therefore to be expected for the DPS project. However, the quantum of those writedowns for the WAPS and DPS projects and the impact on the earnings for the financial year ending 30 June 2014 (**FY14**) could not be determined at that stage.

Given the materiality of the likely writedowns and the immediate need to undertake further work to assess the likely financial impact of those writedowns and remedial costs necessary in relation to the DPS and WAPS projects, a trading halt was called before the start of the next trading day on Monday, 4 November 2013. It was only at this point that the Entity was aware of some of the information ultimately contained in the Announcement, but not all of the information which would allow it to clarify the position for the DPS and WAPS projects or provide guidance regarding the magnitude of the impact on financial performance and outlook for FY14.

4. **If the answer to question 1 is “yes” and the Entity first became aware of some and/or all of the information in the Announcement prior to making the Trading Halt Request or prior to making the Announcement, did the Entity make any announcement prior to the relevant date which disclosed some or all of the information? If so, please provide details. If not, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe the Entity was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps the Entity took to ensure that the information was released promptly and without delay.**

As set out in the response to question 3 above, until the mediation session ended late on Friday, 1 November 2013, management held the view that the potential project losses could be avoided by negotiating a favourable settlement with a key client and sub-contractor and that no material change to the Entity's FY14 financial performance would result. It was not until the outcome of negotiations from the mediation session was clear that management considered it likely that a material downgrade of the Entity's expected profit would result and an announcement to address a material difference from market expectations would be required. Senior management briefed the Board on Sunday, 3 November 2013 and the Board resolved to apply for an immediate trading halt.

During the period between the Trading Halt and the Announcement, management worked with the Board and the Entity's advisers to urgently assess:

- the quantum of the losses on the DPS and WAPS projects;
- the additional cost to complete the DPS and WAPS projects and mitigate losses arising from those projects;

- the impact on existing cashflow and the revised cash requirements of the overall business for the remainder of FY14; and
- the quantum of urgent additional capital required over and above the revised forecast cashflow.

Simultaneously, the Entity urgently investigated and progressed a number of capital funding alternatives, having regard to interests of all shareholders and the urgent timeframe in which capital was required.

Until each of these matters was resolved with a reasonable degree of certainty, the Entity did not consider that a reasonable basis existed to advise the order of magnitude of the revised expectations for the Entity's financial performance in FY14.

During this period, the Entity provided updates to ASX regarding its expected timing for the lifting of the Trading Halt and voluntary suspension and at each point provided a brief update about the nature of the issues it had identified and the ongoing work that it was undertaking to resolve those issues.

The variations to funding arrangements with ANZ which were finally agreed on the evening of Wednesday, 27 November 2013 ultimately enabled the Entity to determine, with sufficient certainty, the revised expectations for FY14. Immediately following this event the Board approved the Announcement for release.

**5. Please confirm that the Entity is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.**

Forge Group confirms it is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

Yours faithfully



**Glen Smith**  
**Company Secretary**  
**Forge Group Ltd**



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29 November 2013

Mr Glen Smith  
Company Secretary  
Forge Group Limited  
28 Troode Street  
West Perth, WA 6005

By email: [Glen.Smith@forgegroup.com](mailto:Glen.Smith@forgegroup.com)

Dear Glen,

**Forge Group Limited (the “Entity”): ASX aware query**

ASX Limited (“ASX”) refers to the following:

1. The Entity’s trading halt request (“Trading Halt Request”) released to the ASX Market Announcements Platform with an ASX market release at 09:27 AM EDST on Monday, 4 November 2013 (“Trading Halt”). The Trading Halt Request contained, among other things, certain information for the purposes of Listing Rule 17.1 including a statement that Forge had identified concerns in relation to potential underperformance on the Diamantina Power Station and West Angelas Power Station projects that were acquired as part of the CTEC acquisition in January 2012, and that Forge is requesting a trading halt to enable it to clarify the position in relation to these projects and to prepare and provide to ASX an update on its earnings guidance and outlook for the financial year ending 30 June 2014.
2. The Entity’s request for voluntary suspension (“Voluntary Suspension Request”) released to the ASX Market Announcements Platform with an ASX market release at 09:57 AM EDST on Wednesday, 6 November 2013 (“Voluntary Suspension”). The Voluntary Suspension Request contained, among other things, certain information for the purposes of Listing Rule 17.2 including a statement that Forge is working to clarify the position in relation to these projects and to prepare and provide to ASX an update on its earnings guidance and outlook for the financial year ending 30 June 2014. The Voluntary Suspension Request also included a statement that Forge does not consider that it has sufficient certainty regarding the matters [set out in the Voluntary Suspension Request] to provide an update to the market.
3. The Entity’s announcement entitled “*Forge Group Ltd provides trading and financial update and requests an end to voluntary suspension*” lodged with ASX Market Announcements Platform and released at 09:48 AM EDST on 28 November 2013 (the “Announcement”), disclosing, among other things, a \$127 million profit writedown in FY 2014 associated with Diamantina Power Station and West Angelas Power Station projects.
4. Listing Rule 3.1, which requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity’s securities.
5. The definition of “aware” in Chapter 19 of the Listing Rules. This definition states that:

*“an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity.”*

Additionally, you should refer to section 4.4 in Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B “When does an entity become aware of information”*.

6. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.

*“3.1A Listing rule 3.1 does not apply to particular information while each of the following requirements is satisfied in relation to the information:*

*3.1A.1 One or more of the following applies:*

- It would be a breach of a law to disclose the information;*
- The information concerns an incomplete proposal or negotiation;*
- The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
- The information is generated for the internal management purposes of the entity; or*
- The information is a trade secret; and*

*3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and*

*3.1A.3 A reasonable person would not expect the information to be disclosed.”*

7. ASX’s policy position on the concept of “confidentiality” which is detailed in section 5.8 of Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B “Listing Rule 3.1A.2 – the requirement for information to be confidential”*. In particular, the Guidance Note states that:

*“Whether information has the quality of being confidential is a question of fact, not one of the intention or desire of the listed entity. Accordingly, even though an entity may consider information to be confidential and its disclosure to be a breach of confidence, if it is in fact disclosed by those who know it, then it ceases to be confidential information for the purposes of this rule.”*

Having regard to the above, we ask that you answer the following questions in a format suitable for release to the market in accordance with Listing Rule 18.7A:

1. Does the Entity consider the information in the Announcement to be information that a reasonable person would expect to have a material effect on the price or value of its securities?
2. If the answer to question 1 is “no”, please advise the basis for that view.
3. If the answer to question 1 is “yes”, when did the Entity first become aware of some and/or all of the information. In addressing this question can you please confirm whether the Entity became aware of some and/or all of the information in the Announcement prior to making the Trading Halt Request. If the Entity became aware of some and/or all of the information in the Announcement prior to making the Trading Halt Request can you please confirm when this occurred.
4. If the answer to question 1 is “yes” and the Entity first became aware of some and/or all of the information in the Announcement prior to making the Trading Halt Request or prior to making the Announcement, did the Entity make any announcement prior to the relevant date which disclosed some or all of the information? If so, please provide details. If not, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe the entity was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps the Entity took to ensure that the information was released promptly and without delay.

5. Please confirm that the Entity is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

### **When and where to send your response**

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than half an hour before the start of trading (**i.e. before 06:30 AM WST**) on 4 December 2013. If we do not have your response by then, ASX will have no choice but to consider suspending trading in the Entity's securities under Listing Rule 17.3.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, the Entity's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail at [fiona.murphy@asx.com.au](mailto:fiona.murphy@asx.com.au) or by facsimile to 61 8 9221 2020. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

### **Listing Rule 3.1**

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. Exceptions to this requirement are set out in Listing Rule 3.1A.

The obligation of the Entity to disclose information under Listing Rules 3.1 and 3.1A is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

In responding to this letter, you should have regard to the Entity's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

### **Trading halt**

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in the Entity's securities under Listing Rule 17.1.

If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely

*[Sent electronically without signature]*

Fiona Murphy

**Senior Adviser, Listings Compliance (Perth)**