



ASX RELEASE

24 August 2017

For immediate release to the market

FY17 FINANCIAL RESULTS

GR Engineering Services Limited (ASX:GNG) (**GR Engineering** or **Company**) today announces its financial results for the financial year ended 30 June 2017 (**FY17**).

Overview

FY17 has been marked by strong levels of contracting activity for GR Engineering, resulting in the group achieving revenue of \$238.7 million and net profit after tax of \$12.9 million. GR Engineering has maintained its revenue performance through its traditional design and construction activity and by increased operations and maintenance contributions from Upstream Production Solutions. The Company has continued to progress opportunities for future work in FY18 and beyond, with major contract awards being announced late in FY17.

Commenting on the Company's FY17 financial result, GR Engineering's Managing Director, Mr Geoff Jones said:

"GR Engineering's FY17 financial results reflect historically high levels of activity performed within the highly competitive landscape that we are operating within. The safe and successful delivery of technically demanding projects such as the Nova Nickel Project and Hellas Phase II Project reinforces GR Engineering's standing as a proven process engineering design and construction contractor. FY17 has also demonstrated the highly scalable nature of Upstream Production Solutions, which has achieved a step-change in its earnings profile with the benefit of multi-year operations and maintenance services awards.

Unfortunately, recent developments associated with the Hemerdon Tungsten and Tin Project have called for GR Engineering to take prudent steps towards capital management until certainty emerges in relation to the recourse Wolf Minerals has sought to pursue against the Company. These steps involve the temporary suspension of the Company's dividend policy with no final dividend being declared and ensures the Company retains the financial capacity to pursue the best opportunities available to it in the marketplace."

The second half of FY17 saw GR Engineering complete close out activities on the Nova Nickel Project and commissioning works on the Hellas Gold Project in Greece as it transitioned into full execution of the Mt Morgans Gold Project EPC contract and early works on the Dalgarranga Gold Project. The Company was also active on discrete works packages associated with site establishment and non-process infrastructure for the Gruyere Gold Project.

Upstream Production Solutions achieved record financial performance in FY17 on revenue of \$68.9 million, which has resulted in Upstream Production Solutions providing an unprecedented contribution to the consolidated group's financial performance.



EBITDA of \$16.9 million reflects an increasingly competitive landscape for the supply of process engineering, design and construction services and continued market trends towards the pricing of risk in fixed price contracting. GR Engineering is well placed to outperform in the current environment by drawing on its technical grounding and strong local supply network, which it considers will continue to be favourably viewed by project developers and their various stakeholders in seeking certainty, quality and proven capability.

The Company enters FY18 with the benefit of a strong order book and opportunity pipeline across its business operations.

Key Earnings and Balance Sheet Data – Consolidated Group

Revenue & Earnings		FY17	FY16
Revenue from operations	\$m	238.7	255.3
EBITDA	\$m	16.9	26.1
PBT	\$m	16.3	25.4
Tax	\$m	3.4	6.1
NPAT	\$m	12.9	19.3
Basic EPS	cps	8.4	12.7

Balance Sheet & Cashflow		FY17	FY16
Net Cash	\$m	34.2	64.0
Total Equity	\$m	48.9	52.0
Net operating cashflow	\$m	-13.5	18.2

Please refer to GR Engineering's FY17 Audited Financial Report for further information on the Company's operational and financial performance.

Post Balance Date Events

The Company's shares have been voluntarily suspended from trading on ASX since 18 August 2017. This suspension remained as the Company sought to update the market in relation to:

- (a) the Supreme Court of Western Australia proceedings between GR Engineering and Eastern Goldfields Limited (**Eastern Goldfields**), details of which GR Engineering announced to the ASX on 11 July 2017 (**Proceedings**) and the impact to those Proceedings of the appointment and subsequent removal of a liquidator to Eastern Goldfields between 16 and 17 August 2017; and
- (b) GR Engineering receiving from Wolf Minerals (UK) Ltd (a wholly owned subsidiary of Wolf Minerals Limited WLF.ASX) (**Wolf**) on 17 August 2017 a contractual notice of claim and intention to call on a performance bond that GR Engineering provided Wolf pursuant to the EPC contract for the design and construction of the Hemerdon Tungsten & Tin Project.



Eastern Goldfields

GR Engineering notes the ASX release made by Eastern Goldfields on 17 August 2017 that the liquidator appointed to Eastern Goldfields on 16 August 2017 had been removed. Should Eastern Goldfields have remained in liquidation, GR Engineering would have been prevented from progressing the Proceedings.

Following the removal of the liquidator, GR Engineering will continue to vigorously pursue the Proceedings to seek recovery of progress claims in relation to the Davyhurst EPC Contract totalling approximately \$9.9 million, plus interest and costs. GR Engineering will closely monitor any developments in relation to Eastern Goldfields' financial position.

Wolf Minerals

On 5 March 2013, Wolf and GR Engineering Services (UK) Ltd (**GRES UK**), a wholly owned subsidiary of GR Engineering, entered into a contract for the design, construction and commissioning of a mineral processing facility at the Hemerdon Tungsten and Tin project located near Plympton in Devon, United Kingdom (**Contract**). The mineral processing facility was taken over by Wolf on 13 October 2015.

GRES UK agreed to provide performance bonding under the Contract, which included a £7.5 million (approximately A\$12.2 million) unconditional bank guarantee (**Bank Guarantee**) to secure GRES UK's performance under the Contract. Wolf has retained the Bank Guarantee pending the achievement of plant performance test outcomes under the Contract.

On 17 August 2017, GRES UK received from Wolf a notice of claim and notice of intention to call on the Bank Guarantee within 21 days of the notice where GRES UK failed to rectify an alleged low frequency noise (LFN) defect in relation to the works under the Contract (**Claim Notice**). GRES UK considers that the Claim Notice is without merit and that Wolf has no grounds to pursue recourse to the Bank Guarantee. GRES UK notes that there has been no call on the Bank Guarantee and has sought to engage with Wolf to address the Claim Notice in the short term. GRES UK has notified its insurers at Wolf's request and denies all liability in respect of the Claim Notice.

To date, GRES UK has received approximately 97% of the Contract sum associated with the Hemerdon Tungsten & Tin project, which has realised a broadly breakeven outcome for the Company. GRES currently holds accounts receivable of approximately \$5.3 million associated with the Contract.

The Company will continue to inform the market in relation to its dealings with Wolf and in respect of the Claim Notice.

Balance Sheet & Dividend

GR Engineering held available cash at bank of \$34.9 million on 30 June 2017 and debt of \$0.7 million. The Company also has available undrawn overdraft facilities of \$15.0 million. GR Engineering maintains its healthy balance sheet and is well capitalised to pursue additional work.

Nonetheless, the uncertainty relating to Wolf's stated intention to have recourse to the Bank Guarantee requires a prudent approach to capital management until further clarity is obtained. Accordingly, the Company has elected to not pay a final dividend in FY17. The board will seek to



reinstate the payment of a dividend at the earliest possible opportunity, likely to be by way of an interim dividend in FY18.

Zero Harm

The consolidated entity achieved a Total Reportable Injury Frequency Rate (TRIFR) of 3.15 in FY17 (FY16 5.89). Whilst this result compares favourably to FY16 performance, management continues to engender a culture and instil work practices aimed at achieving total safety on all jobs at all locations.

Outlook

As the consolidated entity moves into FY18, it is buoyed by a strong order book dominated by Australian gold projects. As at 30 June 2017, contracted revenue for the consolidated entity expected to be received in FY18 is approximately \$240 million. Together with opportunities for additional work, the consolidated entity expects revenue for FY18 to be in the range of \$300 million to \$330 million.

Ends.

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GR Engineering Services Limited (ASX:GNG) is an ASX listed engineering design and construction contractor specialising in fixed price engineering design and construction services to the resources and mineral processing industry.

GR Engineering has successfully completed the engineering design and construction of projects for a diverse range of clients, including global mining houses, mid-tier miners and junior developers undertaking their first project. Traditionally an EPC contractor, GR Engineering also has the ability to contract through a variety of models, including EPCM and hybrid contracting arrangements.

GR Engineering also has a long history of providing a diverse range of process engineering consulting services, including feasibility study preparation and management, process design and peer review engagements. These services have been delivered for projects globally and play a key role in delivering organic growth opportunities through design and construction project execution.

The Company also has a presence in the hydrocarbons industry via its wholly owned subsidiary, Upstream Production Solutions. Upstream Production Solutions is a leading provider of operations and maintenance and well management services to the Australian and South East Asian oil and gas industry.

As a group, GR Engineering employs more than 450 professional and support staff throughout Australia and internationally, in addition to a direct construction workforce and subcontracted personnel.