

AusGroup Limited

Presentation to NoteHolders - 3rd Update

Private and Confidential

30 June 2016

Terms of Reference

This presentation has been prepared to provide our preliminary findings of the Independent Business Review (“IBR”) of AusGroup Limited (“AusGroup”).

Basis of Information

Our report deals primarily with financial data and other matters which we consider to be of relevance and interest to Note Holders of AusGroup. Our primary source of information is AusGroup’s records, audited financial statements as at 30 June 2015, financial statements and dividend announcement for the third quarter ended 31 March 2016, AusGroup’s report dated May 2016 to its Private Bankers, Valuation Report dated 21 July 2014 by Stone Forest Corporate Advisory Pte Ltd (“Stone Forest”), Draft Valuation Report dated 28 June 2016 by Stone Forest Corporate Advisory Pte Ltd (“RSM”), Independent Financial Adviser report dated 14 October 2014 by Ernst & Young Corporate Finance Pte Ltd (“EY”), explanations and representations made available to us and/or made to us by the Directors and management of AusGroup, and publicly available information.

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Financials

Consolidated profit and loss - Forecast for FY17

Highlights

A **- 12%**
 FY16 – FY17F Revenue decline, Woodside contract lost which contributed to AUD50m and AUD100m in FY15 and FY16

B **10%**
 FY17F increase in GPM from 6% to 10% following the anticipated divestment in AusGroup Singapore

C **-6% to 6%**
 FY16 to FY17F EBITDA margin improvement as GP improves and opex decline

D **6%**
 EBITDA margin in FY17F principally driven by MAS and AGC business segment

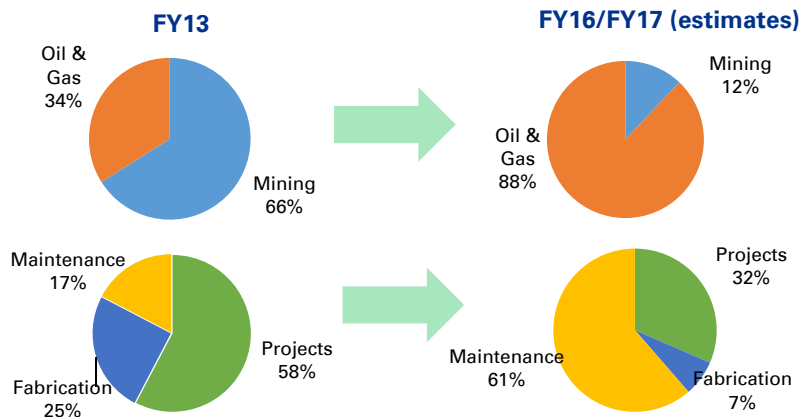
Consolidated Profit and Loss

Consolidated Profit and Loss			
AUD'000	Audited FY15	Unaudited FY16 ⁽¹⁾	Forecast FY17
Revenue	427,412	A 484,980	427,774
Cost of sales	(368,060)	(457,001)	(385,777)
Gross profit	59,352	27,979	41,996
<i>Gross Profit Margin</i>	14%	B 6%	10%
Other operating income	3,700	3,900	1,710
Other operation costs	(22,533)	(77,406)	(24,229)
Administrative expenses	(19,852)	(33,608)	(7,737)
Marketing and distribution	(1,916)	(2,511)	(117)
Share of profit/ (loss) of	-	-	-
Impairment of goodwill	(3,520)	(2,535)	-
Profit from operations	15,231	(84,181)	11,624
Finance costs	(7,476)	(15,925)	(14,234)
PBT / (LBT)	7,755	(100,106)	(2,610)
Income tax	(1,545)	(33)	657
Profit/(loss) for the year	6,210	(100,139)	(1,954)
<i>Add:</i>			
Finance costs	7,476	15,925	14,234
Tax	1,545	33	(657)
Depreciation	12,031	14,626	14,986
EBITDA ⁽²⁾	27,262	(69,555)	26,610
EBITDA margin	6%	-14%	6%
<i>Adjustment:</i>			
Receivables impairment ⁽³⁾	(11,567)	42,500	-
Adjusted EBITDA for illustration only	15,695	(27,055)	26,610
Adjusted EBITDA margin	4%	D -6%	6%

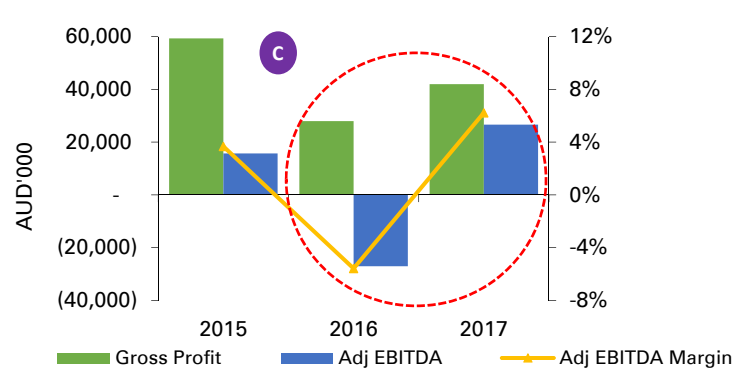
Source: Audited Financial Statement 2013 to 2015 and In-House report 2016 to 2017
⁽¹⁾ Data for FY16, were based on In-House report for 11 months actual and 1 month forecast.
⁽²⁾ EBITDA definition as per Trust Deed (without exceptional items)
⁽³⁾ Impairment of receivables in 2016 are allocated to the respective year the revenue was recognised.

Revenue, Customer composition

- Mining → Oil and Gas
- Projects/Construction → Maintenance.



Gross Profit and EBITDA



Consolidated profit and loss – Forecast for FY17

Highlights

AUD81m
Reduction in Operating expenses from FY16 to FY17F

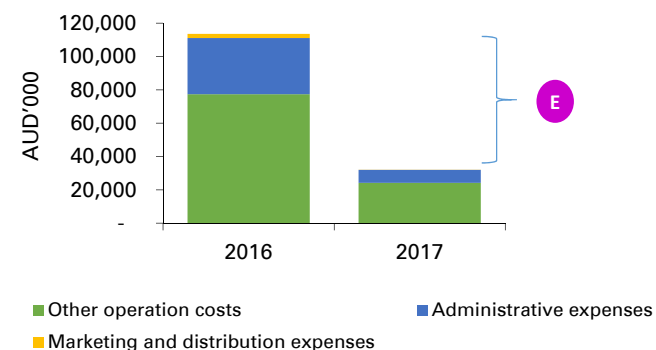
AUD15m
Savings from salaries reduction of 600 Headcount projected in FY17F

Consolidated Profit and Loss

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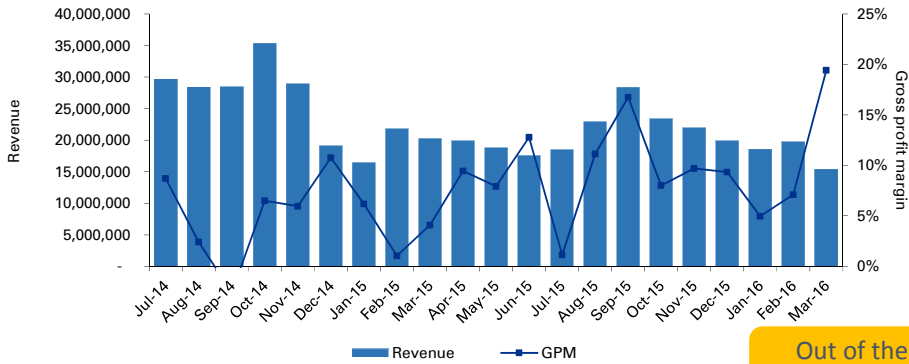
Operating Expenses



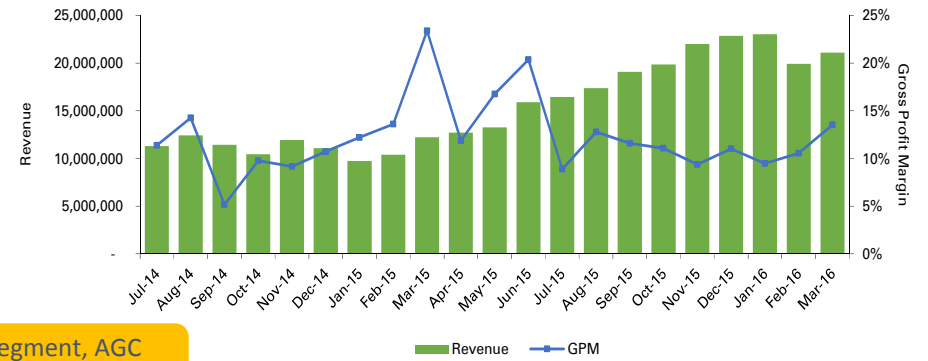
- E AUD 81m anticipated reduction mainly from:**
- Impairment of receivables – AUD 46.5m
 - Impairment of other assets – AUD 12.7m
 - Salaries and headcount – AUD 15m
 - Consultancy fees – AUD 5m

Profitability - Revenue Trend (Jul 14 - Mar 16)

AGC

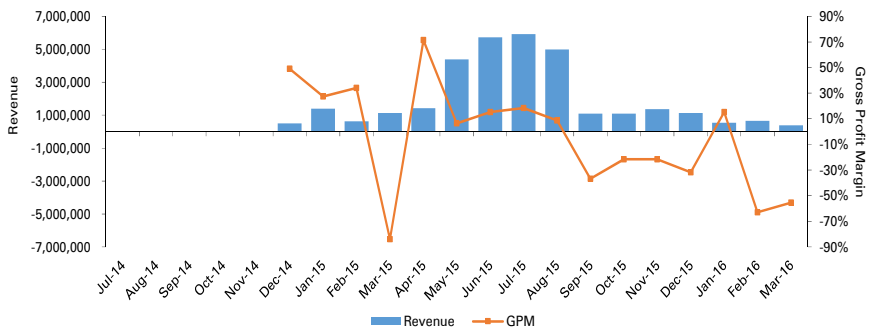


MAS



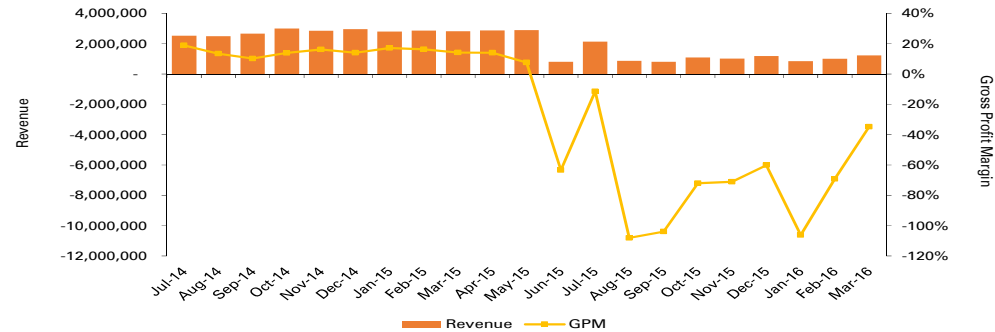
Out of the 4 business segment, AGC and MAS are profit making.

Port & Marine



The Company is currently looking at divesting AusGroup Singapore.

AusGroup SG





Cash Flow Forecasts

Cash Flow Forecasts – Basis of Preparation

Basis of preparation

The cash flow forecast presented in this section has been prepared and confirmed by the management

We understand from Management a series of cost reduction initiatives were taken in the past 12 months as set out below:

Operating Expenses

- 1) Reduction of employee headcount of circa 600 employees resulting in a total yearly savings of AUD15 million per annum; and
 - 2) Disposal of PPE (cranes, trucks, machineries, and etc) resulting in an estimated proceeds of AUD5.9 million in FY17.
- Effects of these cost reduction initiatives are included in the forecast cash flow presented.

Financing Activities

- 1) DBS short term loan amounting to AUD11 million as at 30 June 2016, due on 31 August 2016 will only be repayable from FY19 onwards.
- 2) DBS term loan amounting to AUD14 million due as at 1 April 2018 will be repayable from FY19 onwards
- 3) Ezion Holdings related party loan amounting to AUD37.2 million will be repayable from FY19 onwards
- 4) Proposed repayment to note holders of AUD12.4 million (a fixed bi-annual payment to Note holders, amounting to AUD8.2 million, and a further principal redemption of AUD4.2 million that will be distributed to the Note holders) for a 2 year extension following the maturity on October 2016.

Cash Flow Forecasts - FY17

Highlights

<p>A Revenue contribution comprised of MAS (56%) and AGC (39%).</p>	<p>B Operation costs Comprised mainly of the Employees' salaries account (56%)</p>	<p>C ATO AUD12 million and AUD3 million, principal and interest payable (verbal understanding)</p>	<p>D Restricted cash Relating to performance bond guarantee with DBS Bank</p>	<p>E Capex Mainly relating to capex investment for MAS and Marine Services</p>
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Cash Flow Projection														
AUD '000	Forecast													
	Jul'16	Aug'16	Sept'16	Oct'16	Nov'16	Dec'16	Jan'17	Feb'17	Mar'17	Apr'17	May'17	Jun'17	FY17F	
Revenue	33,566	35,902	39,504	40,402	38,586	35,473	38,152	37,142	33,445	34,828	32,066	28,708	427,774	A
COGS	(31,412)	(33,360)	(36,195)	(36,609)	(34,832)	(32,474)	(34,518)	(33,136)	(30,630)	(30,033)	(27,754)	(24,826)	(385,777)	
Trade Proceeds (A)	2,153	2,542	3,309	3,793	3,755	2,999	3,634	4,006	2,815	4,795	4,312	3,882	41,996	
Other operating cash inflow/(outflow) (B)	(2,333)	(3,031)	937	(3,827)	(3,608)	2,943	1,674	(2,865)	(2,590)	(2,746)	(2,621)	(1,964)	(20,032)	B C
Net cash inflow/(outflow) from operations (C) = (A) + (B)	(179)	(489)	4,246	(33)	146	5,942	5,308	1,141	225	2,049	1,691	1,919	21,965	
Net cash inflow/(outflow) from investing activities (D)	(88)	3,572	(570)	(6)	(2,863)	(504)	(320)	(79)	(401)	(86)	(590)	(4)	(1,936)	E
Financing activities														
DBS term loan	-	-	-	(1,306)	-	-	-	-	-	(1,306)	-	-	(2,612)	
Payment to noteholders (P+I)	-	(2,100)	(4,100)	(2,100)	-	-	-	-	(4,100)	-	-	-	(12,400)	
Microsoft and MAS HP	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(43)	(43)	(43)	(579)	
Interest of ATO GIC	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(3,000)	C
Net cash inflow/(outflow) from financing activities (E)	(300)	(2,400)	(4,400)	(3,706)	(300)	(300)	(300)	(300)	(4,400)	(1,599)	(293)	(293)	(18,591)	
Net Cash Flow (C) + (D) + (E)	(567)	682	(724)	(3,745)	(3,016)	5,138	4,688	762	(4,576)	364	808	1,622	1,438	
Cash Balance Brought forward	22,500	16,533	17,215	16,491	12,746	9,730	14,868	19,556	20,319	15,743	16,107	16,915	17,100	
Restricted cash	(11,600)	-	-	-	-	-	-	-	-	-	-	-	-	D
Interest Escrow Account (Noteholders)	6,200	-	-	-	-	-	-	-	-	-	-	-	-	
Cash Balance for the month	16,533	17,215	16,491	12,746	9,730	14,868	19,556	20,319	15,743	16,107	16,915	18,538	18,538	

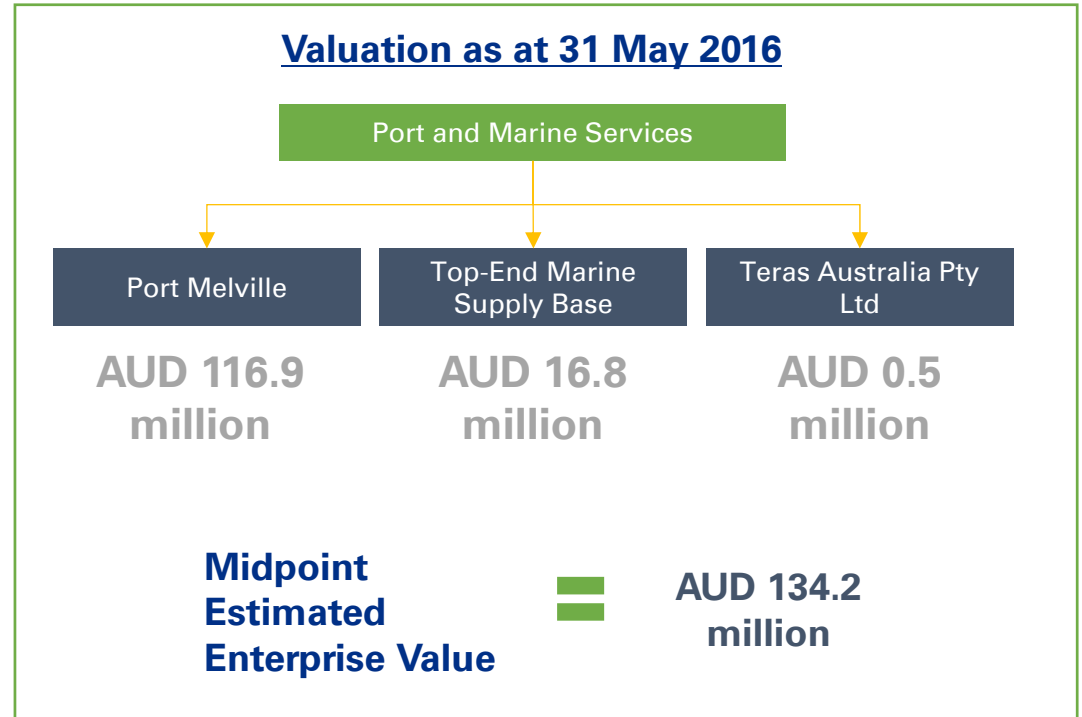


Port and Marine Valuation

RSM Valuation – Port and Marine Services

Valuation Assumptions and Methodology

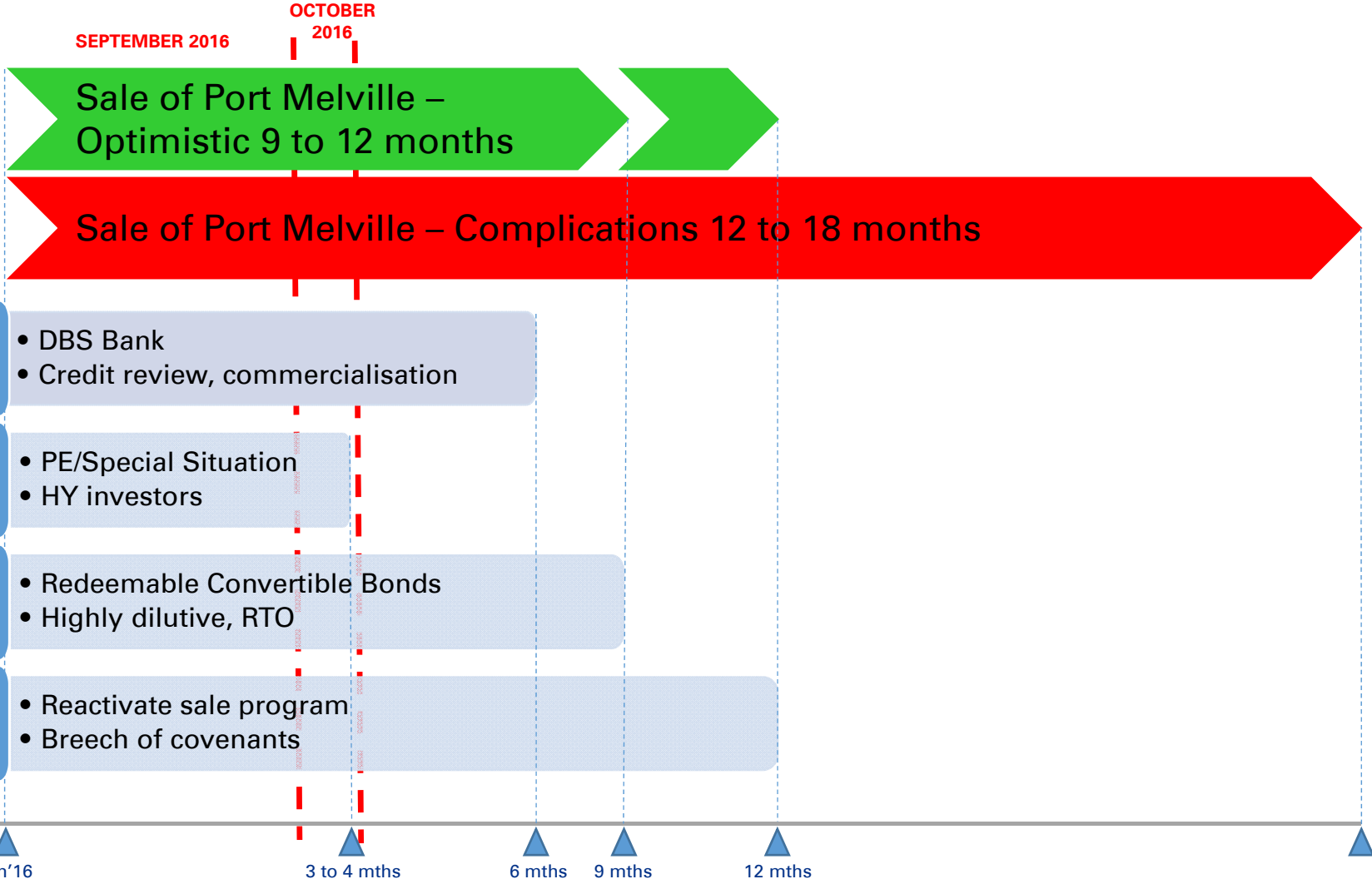
- **Valuation Assumptions:**
 - Operationalization of the port
 - **Non inclusion of defense related income and expenditure**
- **Valuation Methodology:** Free Cashflow to the Firm, Discounted Cashflow Methodology
- **Forecast Horizon:** 20 Years
- **Terminal Value Growth Rate:** 0%
- **Mid Point WACC:** 13.3%





Restructuring options and proposal to Note Holders

Options & Critical Timelines

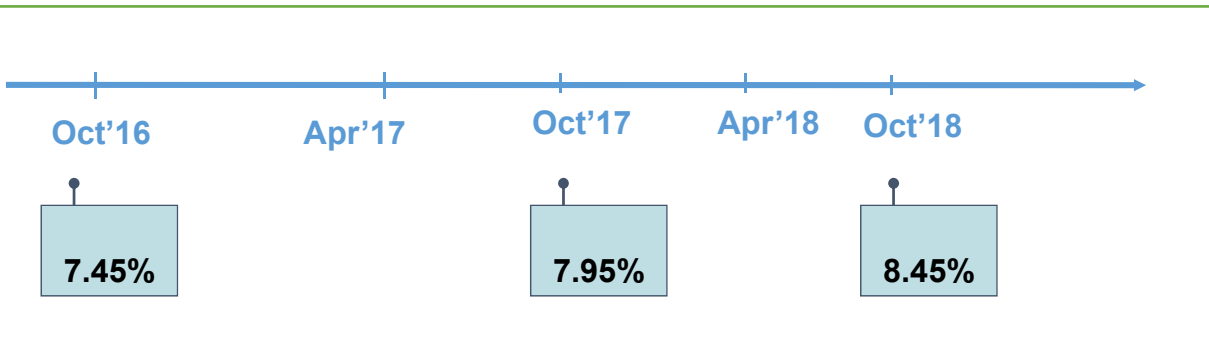


Terms of extension

Terms of extension

- Request for waiver of breaches
- Securitisation of the Port and assignment of proceeds
- Extension of Note maturity, till the shorter of either:
 - Commercialisation of the Port
 - Refinancing from DBS
 - Bridge financing
 - Completion of the sale of Port Melville
 - Two years (long stop date)

Proposal : 7.45% to 8.45% Interest



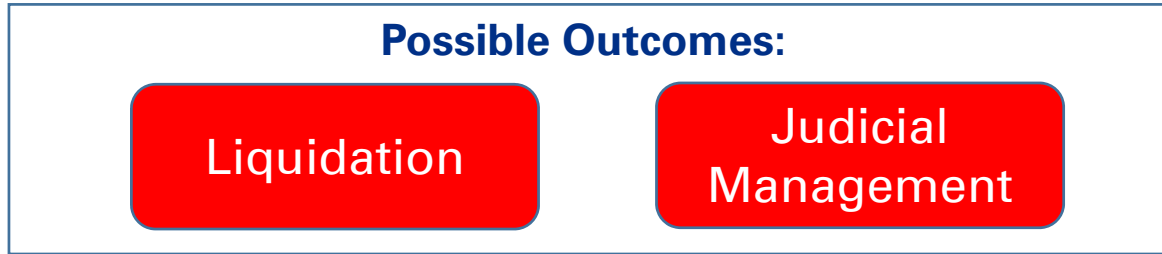


Appendices



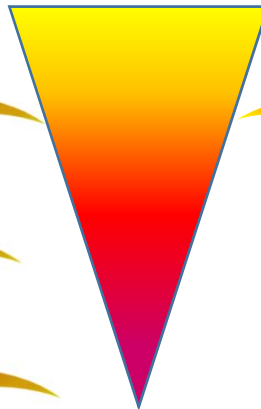
Consequences of Acceleration

Consequences of an acceleration



Loss in Revenue

1. Termination of contracts
2. Liquidated damages – Receivables becoming Payables
3. Crystallisation of contingent liabilities



Enlarged Creditor Pool

1. Creation of a new class of Creditors that do not currently exist - Priority expenses (i.e. Liquidator fees, Legal fees, Other professional fees)

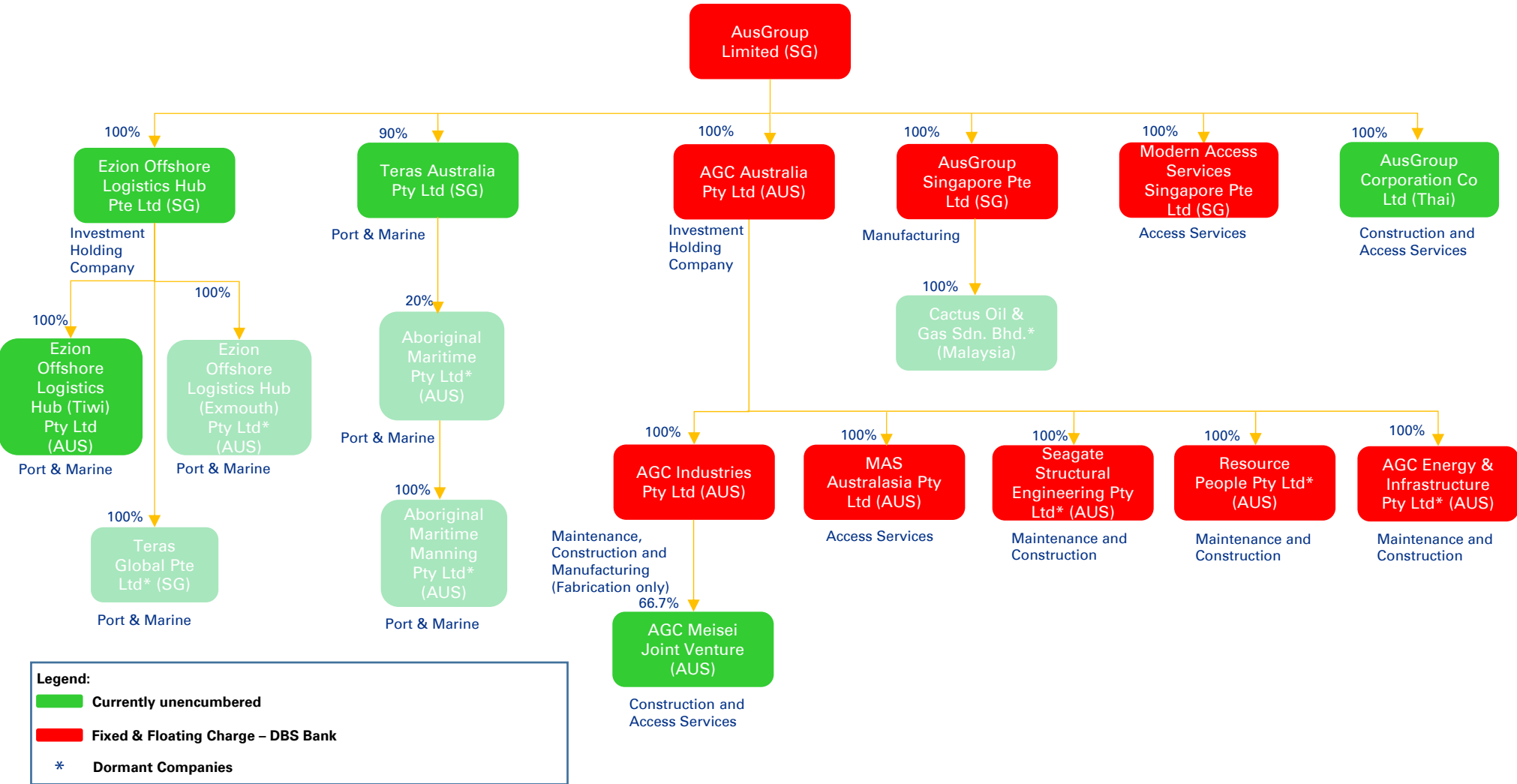
Shrinking Asset Pool

1. Fire sale – assets lose their value very quickly
2. Sale of parts vs whole

Returns to Note holders

1. Long drawn process
2. Will not recover 100%
3. No compensation, no upside

Securitisation of financial exposures



Legend:
■ Currently unencumbered
■ Fixed & Floating Charge – DBS Bank
 * Dormant Companies

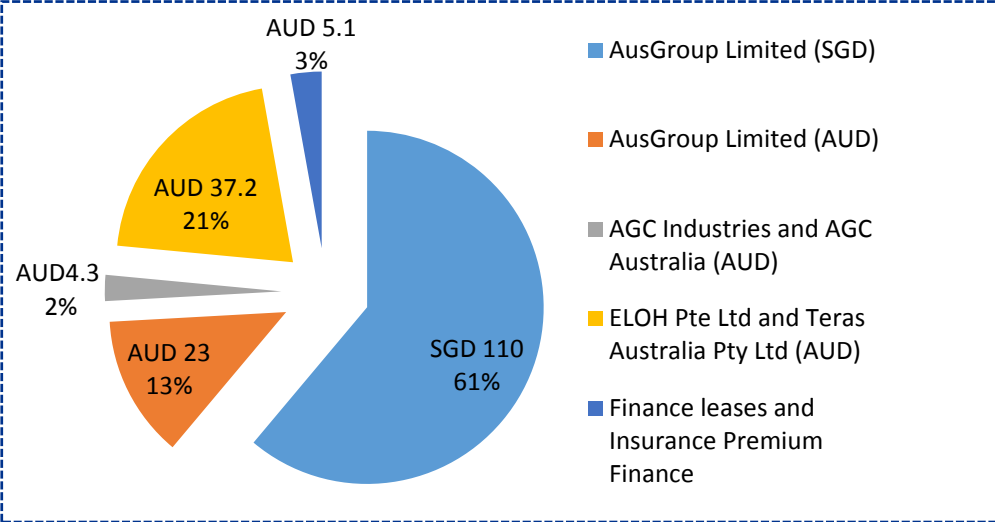




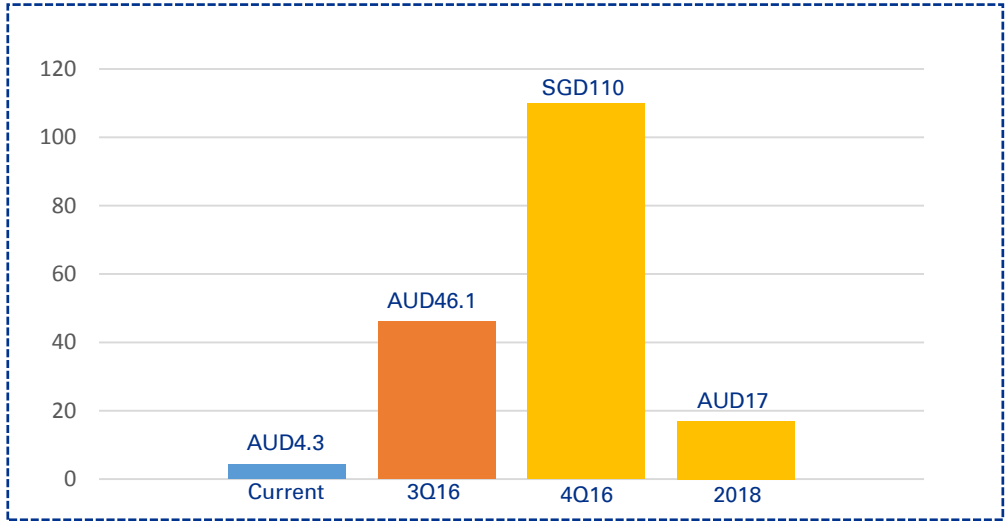
Group Debt Overview & Contingent Liabilities

Group Debt Overview

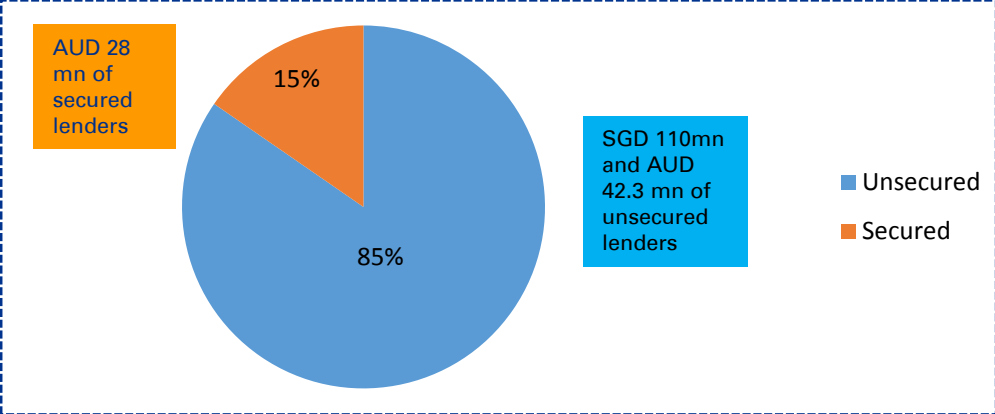
Group Debt Overview as at 31 March 2016 – SGD110 mn and AUD70 mn



Group Repayment Profile - million



Percentage of secured and unsecured lenders, 31 March 2016 – in AUD'mn



AusGroup major lenders as at 31 March 2016



Group Debt Overview

Borrowings Profile								
Bank	Company	Facilities	Approved Amount / Limit ' million	Outstanding balance as at 31.3.16 ' million	Headroom ' million	Interest rate p.a.	Maturity date / Tenor	Securities
Accredited Investors ("AI")	AusGroup Limited	Multicurrency Debt Issuance ("MDI") Multiple Noteholders - DBS Trustee Ltd is the Trustee of the Marvel Trust Deed of SGD 350 MDI	SGD 110	SGD 110	None	7.45%	20 October 2016 / 2 years	None
DBS Bank	AusGroup Limited	2. Term Loan Facility	AUD 27.8 (USD 20)	AUD 17.4	AUD10.4	LIBOR + 3.85%	1 April 2018 / 3 years	<ol style="list-style-type: none"> Charge on fixed deposits for AUD11.6m from AGC Australia Pty Ltd Fixed and floating charge over all present and future assets of: <ol style="list-style-type: none"> Ausgroup Limited Ausgroup Singapore Pte Ltd MAS Singapore Pte Ltd AGC Australia Pty Ltd AGC Industries Pty Ltd MAS Australasia Pty Ltd Seagate Structural Engineering Pty Ltd AGC Energy and Infrastructure Pty Ltd Resource People Pty Ltd Property - 15 Beach Street, Kwinana, WA. (AGC Australia Pty Ltd)
	AGC Industries	3. Account Receivables Purchase Facility (for working capital)	AUD 23	AUD 4.3	None as this is an uncommitted facility	1 month LIBOR +1.5% per annum	Not applicable	<ol style="list-style-type: none"> Property - 15 Beach Street, Kwinana, WA. (AGC Australia Pty Ltd) Lots 17 and 18 Gap Ridge Industrial Estate Karratha, WA. (Seagate Structural Engineering Pty Ltd) Properties including personal, proceeds, interests, rights, goodwill, capital. <ol style="list-style-type: none"> AGC Australia Pty Ltd AGC Industries Pty Ltd MAS Australasia Pty Ltd Seagate Structural Engineering Pty Ltd AGC Energy & Infrastructure Pty Ltd Resource People Pty Ltd
	AusGroup Limited	4. Short Term Loan Facility (for working capital)	AUD 30	AUD 6	None as the Loan Facility is due to expire on 31 August 2016	4%	31 August 2016	

Debt Overview (2)

Borrowings Profile								
Bank	Company	Facilities	Approved Amount / Limit ' million	Outstanding balance as at 31.3.16 ' million	Headroom ' million	Interest rate p.a.	Maturity date / Tenor	Securities
Ezion Holdings	ELOH Pte Ltd, Teras Australia Pty Ltd	Trading loan balance – related party	NA	AUD 37.2	NA	NA	31 August 2016	None
Add: Hire purchase liabilities/ finance leases		Finance leases	NA	AUD2.9	NA	NA	31 August 2016	None
Total loans and borrowings				SGD 110 million and AUD 70 million	AUD 10.4			

Source: Facilities agreement from DBS Bank Ltd

Level of Headroom





cutting through complexity

- KPMG Services Pte. Ltd. (Registration No: 200003956G), a Singapore incorporated company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved



Key contacts

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