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For Immediate Release

Company Registration Number 200413014R
438B Alexandra Road #05-08/10 Alexandra Technopark,
Singapore 119968

Singapore and Australia
7 October 2020

Response to SGX Queries on FY2020 Annual Report

The Board of Directors (the "**Board**") of AusGroup Limited (the "**Company**" or "**Group**") would like to respond to the query from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") regarding the FY2020 Annual Report. The Company sets out below its response to the query.

<u>Question 1</u>

We refer to AusGroup Limited's (the "Company") 25 September 2020 announcement on its FY2020 annual report. Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "Code"), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had neither disclosed the amount of remuneration paid for each individual director and CEO, nor disclosed the aggregate total remuneration paid to key management personnel who are not directors or the CEO. Accordingly, it had not fully complied with Provision 8.1 and 8.2 of the Code with regards to the disclosure of remuneration, and there were no explanations were provided for in your FY2020 annual report on how it is consistent with the intent of Principle 8 of the Code. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company's remuneration policies, level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation.

<u>Company's response</u>

The Company has disclosed in note 32 (c) of the FY2020 Annual Report the total renumeration paid to the key management personnel and Directors analysed between salaries and other short-term employee benefits; termination benefits; employer's contribution plans including superannuation and Central Provident Fund and employee share option scheme expense.

Given the sensitivity and confidentiality of remuneration matters, the Board is of the opinion that it is in the best interest of the Company not to disclose the individual remuneration of each Director, the CEO and key management personnel however the Company has disclosed the remuneration bandings for each individual Director, the CEO and key management personnel in the FY2020 Annual Report. The Company is of the view that the disclosure of the Directors' remuneration bandings provides a reasonable amount of information on the Company's remuneration framework to enable the shareholders to understand the link between the Company's performance and the remuneration of the Directors. The fees to the Independent Directors are proposed to shareholders for approval on an annual basis at the Company's annual general meeting.

The Board has determined that the practices that the Company has adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company's remuneration policies, level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation.

<u>Question 2</u>

The Company's independent auditor issued a disclaimer of opinion raised by over the recoverable amount of the Port and Marine CGU as well as a material uncertainty over whether there is a breach in the Debt Service Ratio Covenant in the Trust Deed which would result in reclassification of the notes into current liability and cast a significant doubt on the Group's ability to operate as a going concern.

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We draw the Company's attention to Listing Rule 1303(3) which states that, "The Exchange may at any time suspend trading of the listed securities of an issuer in any of the following circumstances:-…(3) where the issuer is unable to continue as a going concern or unable to demonstrate to the Exchange and its shareholders that it is able to do so, including the following circumstance: (c) when the issuer is unable to reasonably assess its financial position and inform the market accordingly". In this regard:

(a) Please provide the Board's assessment of the Group's ability to continue operating as a going concern and the bases for such an assessment. Please directly address the concerns raised by KPMG LLP in their audit report in your explanations.

(b) Please provide the Board's opinion as to why a trading suspension is not required pursuant to Listing Rule 1303(3); and

(c) If the Board is able to justify and substantiate its view that the Company is able to operate as a going concern, please provide the Board's confirmation that all material information has been fully disclosed by the Company to enable trading to continue on an informed basis.

<u>Company's response to question 2 (a)</u>

Please refer to the extract on pages 38 and 39 of the AusGroup FY2020 Annual Report below: This extract details the comprehensive assessment made by the Directors and encompasses the basis of preparation, cashflow statements, short-term debt obligations and an assessment of going concern for the directors to arrive at their basis of acceptance of the going concern principles.

"2 Summary of significant accounting policies
(a) Basis of preparation

<u>Going Concern</u>

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its obligations as and when they fall due.

The Group recognised a net loss after tax of AU$59.5 million for the year ended 30 June 2020. The Group's current assets exceed current liabilities by AU$27.6 million as at 30 June 2020; the Group continues to generate positive cash flows from operating activities of AU$8.9 million for the year ended 30 June 2020 and the cash balance at 30 June 2020 was AU$22.8 million which increased by AU$5.6 million compared to the position at 30 June 2019. The Group's earnings have been significantly impacted by the effects of COVID-19, including a $50 million non-cash impairment and postponements in work programmes on customer determined "non-critical work" to reduce the movements of personnel to client's work sites. The non-cash impairment of $50 million on the carrying value of the Port and Marine non-current assets has been recognised in FY2020 following the effects of COVID-19 on the revenue generating activities of the Port and Marine business. The impact of the COVID-19 pandemic has increased pricing volatility in the oil and gas commodity markets and this uncertainty has led to delays in the development of an oil and gas field that is expected to be serviced by the Port and Marine business. The COVID-19 pandemic has also led to the temporary cessation of forestry exports from the Tiwi Islands, which further impacted the performance of the Port and Marine business and has led to this impairment (refer to Note 25 for further details).

As a result of the losses incurred, including the non-cash impairment, the Group has sought and received waivers for certain banking covenants with DBS (refer Note 18). In addition, the Group has made adjustments, in accordance with the Trust deed, to its earnings for certain covenants pursuant to the Multi Currency Notes (refer Note 18) and has not received any adverse response from the Trustee.

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Short term debt repayments

At 30 June 2020 the amount due to be repaid within one year is AU$7.2 million which, compared to the cash balance at 30 June 2020 of AU$22.8 million, is able to be satisfied when due. The material component of the current debt is AU$5.0 million which is expected to be extinguished by 31 December 2020. Accordingly, the short-term focus on the Group's cashflow to meet short term debts has been previously addressed as the Group has re-scheduled the majority of its borrowings to a longer term (non-current) tenure. The Group is still focused on options to reduce debt further prior to the maturity dates in 2022 and 2023 and bolster working capital to support the expansion of services to its clients.

Cashflow forecasts

As part of the assessment of the going concern assumption applied in the preparation of the financial statements the Group has prepared cash flow forecasts from 1 July 2020 to 31 December 2021, including sensitivities. The Group expects to generate positive operating cash flows from secured and new contracts. As common in the maintenance and construction contracting sector, the quantum of secured work at any point in time relates to a proportion of expected revenue for the forecast period. These forecasts represent management's best estimate of revenues and costs in the coming periods and include cash inflows from secured contracts and new contracts from existing and new clients. Consistent with prior years whilst these forecasts contain some uncertainties relating to the conversion of unsecured contracts, management continues to remain confident that sufficient contracts will be secured to generate the Group's positive cash flows to meet obligations. Solely from the secured contracts existing at 30 June 2020, the Group should still be able to generate positive operating cash flows in the next 12 months from the reporting date.

Preparation of the financial statements on a going concern basis

There are some uncertainties over the cash flows to be generated from the conversion of future unsecured contracts that may cast doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. During volatile market conditions as a result of COVID-19 and the unknown longevity of the impacts stemming from this pandemic any forecast is subject to change which may cast doubt on the Group's ability to continue as a going concern.

The directors, having considered these matters and as things stand, believe that the Group will be able to meet its obligations as and when they fall due. This conclusion is based on the following:

- *the generation of forecast positive cashflow from the Group from 1 July 2020 to 31 December 2021, including revenue from secured and unsecured contracts;*
- *the cash balance at 30 June 2020 of AU$22.8 million;*
- *the debt due within one year of AU$7.2 million;*
- *the extension of the maturity date of the Notes to 3 December 2022;*
- *the net current asset position of AU$27.6 million;*
- *forecast compliance with financial covenants;*
- *the availability of potential credit facilities to the Group; and*
- *the divestment of assets or businesses to raise proceeds, if needed, to extinguish the Group's debt obligations.*

Accordingly, the directors are of the opinion that the preparation of the financial statements on a going concern basis remains appropriate."

The Company's independent auditor issued a disclaimer of opinion on the recoverable amount of the Port and Marine CGU and outlined on pages 31 and 32 of the FY2020 Annual Report their basis for forming this opinion which is extracted below:

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"As at 30 June 2020, the Group's carrying values in property, plant and equipment (Note 11) and intangible assets (Note 14) were AU$26.2 million and AU$ 12.5 million respectively, (net of impairment charges of AU$30.3 million and AU$19.7 million recorded in current year's consolidated profit or loss against the property, plant and equipment and intangible asset respectively). These property, plant and equipment, and intangible assets are deployed in the Port and Marine cash-generating unit ("CGU"). As a result of these impairment charges recorded at the Group, as at 30 June 2020, the Company recorded an impairment charge of AU$33.6 million on investments in subsidiaries, and another expected credit loss allowance of AU$16.4 million on receivables owing from subsidiaries operating the Port and Marine business.

As disclosed in note 25 to the financial statements, the Group has estimated the recoverable amount of the Port and Marine CGU based on a fair value less costs of disposal method, calculated using discounted cash flows from Port and Marine operations taking into account increased revenue growth from recovery of the Oil & Gas sector. As at 30 June 2020, the Port and Marine CGU remains at an early stage of commercialisation with very limited fuel sales transactions. Note 25 to the financial statements further described how the lack of exploration & production activities near the Group's port, together with the COVID-19 pandemic have significantly impacted the level of economic activities at the Group's Port and Marine CGU. We were therefore unable to obtain sufficient and appropriate audit evidence regarding the key assumptions applied to arrive at the recoverable amount of the Port and Marine CGU. These assumptions include management forecast of underlying market share, and related revenue growth assumptions (refer to note 25) where past historical transactions together with current market conditions are not sufficiently available to support these cash flow forecast.

Accordingly, we were unable to determine whether any adjustments were necessary in respect of the Group's carrying amounts of property, plant and equipment and intangible asset as at 30 June 2020, and elements making up the consolidated statement of comprehensive income, changes in equity and cash flows for the year ended 30 June 2020. In connection with this, we were also unable to determine whether any adjustments to the carrying amounts of the investments in subsidiaries and receivables owing from subsidiaries shown in the Company's balance sheet were necessary."

As a result of considering the impact of COVID-19 and the delays in a key oil and gas development that is expected to be serviced by the Port and Marine CGU the Company recognised an impairment of AUD$50 million on the carrying value of the Port and Marine CGU at 30 June 2020. At 30 June 2020 the current carrying value of the Port and Marine CGU is AUD$39.2 million. Whilst the Port and Marine CGU is currently loss making the Directors have considered the numerous near-term prospects for the business combined with a non-binding indicative offer received for the business and determined that the carrying value of the Port and Marine CGU is appropriate however this position wasn't accepted by the independent auditor.

The Company's independent auditor issued a disclaimer of opinion on going concern and outlined on pages 31 and 32 of the FY2020 Annual Report their basis for forming this opinion which is extracted below:

"Under the Trust Deed, the Debt Service Ratio covenant provides for extraordinary or exceptional items but the conditions or events that call these items to be excluded from consolidated earnings are not defined in the Trust Deed. The Group has considered the adverse financial effects from Covid-19 pandemic as extraordinary and excluded them from the Debt Service Ratio calculation. Without these basis adjustments, the Debt Service Ratio covenant would not have been met. As at the date of this report, the Group has not received any response from the Trustee that the basis adjustments are appropriate."

As disclosed on page 80 of the FY2020 Annual Report:

"The Group has complied with the financial covenants on its Multi Currency notes after making adjustments for extraordinary and exceptional items in accordance with the Trust deed predominantly relating to the adverse impact of COVID-19 on the financial performance in the fourth quarter of FY2020 which has had a detrimental impact on earnings and the carrying value of the Group's assets. The Group was in compliance with the Multi-Currency note covenant during the test period to 31 December 2019 which was before the adverse impact of COVID-19 occurred."

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The Company issued a compliance certificate in accordance with the terms of the Trust Deed and has not received any adverse response from the Trustee. As the Company has not received an adverse response it has concluded that the covenant is compliant and the debt is a non-current liability however this position wasn't accepted by the independent auditor.

Company's response to question 2 (b)

Please refer to the extract provided above. The directors have assessed the viability of the cash flows and going concern based on the criteria outlined above and are of the opinion that the preparation of the financial statements on a going concern basis remains appropriate and accordingly a trading suspension is not required pursuant to Listing Rule 1303(3).

Company's response to question 2 (c)

Please refer to the extract provided above. The directors have assessed the viability of the cash flows and going concern based on the criteria outlined above and are of the opinion that the preparation of the financial statements on a going concern basis remains appropriate and all material information has been fully disclosed by the Company to enable trading to continue on an informed basis.

By Order of the Board

Shane Francis Kimpton
Managing Director
7 October 2020

Ends

Issued by AusGroup Limited.

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ABOUT AUSGROUP LIMITED (Bloomberg Ticker: AUSG.SP)
Main board-listed, AusGroup Limited is an energy and resources specialist providing fabrication, precision machining, construction and integrated services to natural resource development companies. The Company also provides access services for construction and maintenance contracts through MAS Australasia Pty Ltd (MAS). AusGroup has an established operations network strategically positioned throughout Australasia. For more information visit **www.agc-ausgroup.com**