

Mr Julian Pemberton
Chief Executive Officer
NRW Holdings Limited
Address to Shareholders
2015 Annual General Meeting
23 November, 2015

2015 has certainly been one of the most challenging years in our 21 year history, not only managing through the effects of a prolonged dispute with Samsung, but also managing the dramatic reduction in revenues and earnings experienced during the period due to the rapid downturn in the mining and mining services sector.

Our 2015 results summary is as follows:

- We achieved revenue of \$778 million compared to \$1.1 billion in the prior year which reflects lower client spend on major project work during the year.
- The reported net loss of \$229 million was driven by two major factors.

Firstly the company impaired its assets by \$157.3 million predominately due to the significant reduction in current asset market values and a write-off of goodwill on the AES business.

The other contributing factor and the subject I will now address is the Roy Hill rail contract.

On the 10th November 2015 we announced we had reached a settlement with Samsung after nearly 12 months of protracted negotiations and legal disputes.

Key terms of the settlement were that Samsung paid NRW \$30 million in full and final settlement. All outstanding litigation, disputes and claims were withdrawn by both parties and practical completion granted.

As advised in the announcement, the settlement sum received was broadly in line with the accounting position recognised in the FY15 full year accounts.

I would like to give you some context on the issues we considered to be critical to our decision to accept a settlement from Samsung.

In order to sustain the business through a lengthy arbitration process we sought to use the adjudication process under the *Construction Contracts Act (WA)* as a means to generate cashflow during the dispute.

Ultimately we found out the process to pursue payment enforcement through the CCA adjudication process is, in our view, arguably flawed as it does not guarantee payment, even in the event of a favourable determination.

The adjudication process under the CCA is an interim measure which is intended to assist cashflow for smaller contractors. In our case we had four adjudication determinations handed down, wholly or partly in our favour, none of which Samsung paid. This led us to having to seek the leave of the Supreme Court to enforce the determinations via numerous applications. This process took

considerable time and even when the Supreme Court ruled in our favour, Samsung continued to resist payment, putting further pressure on cashflow.

The only long term solutions were to either negotiate a global settlement with Samsung or pursue our claims through the arbitration process in Singapore.

Our internal assessment of the arbitration process determined that a better outcome may have been achievable, but was by no means certain.

Unfortunately, the difficulty with arbitration (particularly when the hearing is to take place in another jurisdiction) is the time it takes to reach a resolution, potentially two years or more, and the costs involved. We needed to consider this aspect in the context of our current debt repayment schedule as highlighted by our auditors in the annual accounts. Any solution that involved progressing the arbitration process also required us to find a solution to fund the business in the interim.

It's also worth noting that even if we had been successful in arbitration, it wouldn't necessarily have guaranteed immediate payment, meaning we may still have had to go through another lengthy legal enforcement process before receiving any funds awarded.

I share the disappointment on the commercial outcome.

The Board considered other options to enable us to continue our legal fight in order to pursue a better outcome, but concluded that in all the circumstances the settlement reached with Samsung was in the best interests of shareholders and also allowed the company to move forward with certainty.

Despite the challenges of the Roy Hill Rail contract, NRW successfully completed several large civil projects during the year including the concrete package at Roy Hill Plant site, the Nammuldi Below Water Table project for Rio Tinto and commenced the Ravensthorpe heavy haul route for Main Roads WA. As the major project pipeline started to slow considerably we also worked on some smaller civil projects for key customers FMG and Rio Tinto.

Our bid teams have been kept busy during the year with a significant number of tenders and budget estimates submitted in iron ore, coal and government infrastructure.

Unfortunately, some of the major project bids submitted have been subject to delay or deferment including the Adani coal project in Queensland. Importantly though, Western Australian Government infrastructure opportunities are expected to commence during 2016.

During the year, NRW formed a joint venture with global infrastructure specialist Salini Impregilo and were selected as one of three preferred bidders on the Forrestfield Airport link tender. This bid has now been submitted and in addition to working together on the Forrestfield Airport link we also plan to pursue other opportunities across Australia.

Our Mining business maintained its key contracts with FMG on North Star and Middlemount Coal during the year and pleasingly we were able to negotiate an extension to the Middlemount contract to 2020. This extension not only supports a long term return for some of our key mining assets but also provides improved certainty to our debt servicing ability.

The Mining division also secured and successfully completed a Box Cut project for Sirius Resources. But most notable was the award post the year end of the Nammuldi Incremental Tonnes project for

Rio Tinto. We have experienced a long and successful relationship with Rio Tinto during the major expansion construction phase and also with mining load and haul contracts across their operations. The award of the Nammuldi contract has increased the group's asset utilisation to over 75%. There are also further opportunities to increase asset utilisation levels with bids submitted that if successful would commence in 2016.

The Drill and Blast business secured an extension at Greenbushes, was awarded a two year extension to the Cloudbreak contract and also secured its first contract in the gold sector at St Ives Gold Mine for Gold Fields Limited.

The AES business remains challenged due to lack of water and service truck sales and also low activity levels in the repairs and maintenance space.

We continue to focus on our safety performance and I am pleased to report that there were no serious incidents or injuries during the year. Our frequency rates have remained steady throughout the year, consistent with industry leading levels.

As a result of projects completing and activity levels remaining subdued we have had to manage a large reduction of our workforce. Over the past 12 months our personnel numbers have reduced by 2,246 to a low of 846 in June 2015

It is clearly difficult to see so many of our long term colleagues and friends leave the company. However, on securing the Nammuldi project we were able to very quickly re-mobilise a number of former NRW employees to the project.

As Ian mentioned earlier, the senior management team has undergone a major restructure to meet the challenges of the current operating environment and significant reductions to our overhead costs have been achieved.

Now that our cost base has been reset, restructuring largely complete and the Samsung dispute settled, we will focus on successfully delivering our current order book of circa \$816 million and on converting the \$2.5 billion that we currently have in our tender pipeline. Of the \$816 million order book approximately \$300 million is secured Revenue for delivery this financial year.

NRW has maintained its excellent reputation in the industry and myself, the Board and our employees are absolutely committed to returning the business to profitability.

I would like to thank our employees for their hard work during this very difficult year, the Board for their assistance and guidance and of course, you our shareholders for your support.