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EAL Interim Earnings Update

E&A Limited (ASX: '**EAL**') advises that, on the basis of unaudited Management Accounts, the Company expects its Net Profit After Tax ('**NPAT**') for the six month period ended 31 December 2014 to be approximately $2.3 million.

EAL Executive Chairman, Mr Stephen Young, said 'the lower than expected result for the six month period is a consequence of a faster than expected decline in commodity markets, in particular, the rapid and significant decrease in oil prices over the past 90 days'.

Shareholders would be aware that a number of EAL's largest clients are oil and gas companies, who have terminated existing contracts, deferred capital expenditure and downsized operations over the last few months.

Mr Young acknowledged that, in keeping with comments made by leaders within the oil and gas industry, the degree and speed of the fall in oil prices has surprised just about everyone.

Mr Young further said 'the level of work undertaken by our operating companies, other than Tasman Power, in November and December was less than budgeted as a result of the delay, deferment and cancellation of a number of projects which we expected to undertake during the period'.

Mr Young also said 'the overall profitability of EAL continues to be adversely impacted by the Federal government's inability to provide certainty in respect of the Renewable Energy Target ('**RET**')'. EAL has invested approximately $15 million into this industry in expectation that the legislated RET would remain unchanged until 2016, at which time a minor adjustment to the RET could have been anticipated.

Mr Young further said 'since early 2014, when the Abbott government first announced the RET Review, EAL has been directly and indirectly encouraging all stakeholders involved in the RET Review to make a decision, as the uncertainty is jeopardising an industry which previously had been meeting all of its objectives, including delivering lower wholesale electricity prices, new investment and employment growth'.

The earnings of Ottoway Fabrication continue to be impacted by the uncertainty regarding the RET, with only three wind towers being constructed during the six month period in Ottoway Fabrication's Whyalla facility.

Mr Young said 'the ACT government announced on 5 February 2015 that three wind farms in Victoria and South Australia had won twenty year deals with the ACT government to supply one third of the cities renewable electricity requirements'. The largest wind farm, 100 megawatts in capacity, owned by French company Neoen, will be built in Hornsdale, ninety kilometres from Port Augusta in South Australia, less than two hundred kilometres from Ottoway Fabrication's Whyalla facility. The second largest wind farm, 80.5 megawatts in capacity, was being developed by British owned RES Australia in Ararat, Victoria. The third wind farm, 19.4 megawatts in capacity is owned jointly by a spin-off of the CSIRO, 'Windlab' and local farmers. The supply and construction arrangements for these projects are still being negotiated by the windfarm owners and Ottoway Fabrication had been invited to provide wind tower pricing and production capacity to potential suppliers.

The result includes the positive contribution of Tasman Power, the electrical maintenance business acquired by EAL in late October 2014. Notwithstanding the difficult terms of trade for iron ore producers, Tasman Power continues to exceed the budgeted expectations set at the time of acquisition. Tasman Power focuses on maintenance services, as opposed to construction projects, for the iron ore industry and as a consequence is continuing to experience strong demand for its services.

The result was also impacted by an unexpected delay in the supply of materials by the client for contracted works at Sino Iron's Dewatering Shed Construction Project, the re-evaluation of margins on work completed on the New Royal Adelaide Hospital and for McConnell Dowell's Roma Hub Project during the six month period ended 31 December 2014.

Mr Young also advised that due to client production difficulties on an earlier phase of work, Fabtech was unsuccessful in securing the last phase of a large contract in Southern Queensland, for which it was the preferred installer, resulting in a gap in its pipeline of work. This reduction in activity was not anticipated and has subsequently been replaced with new work secured in January and February 2015. This newly secured work is scheduled to commence in late March or early April 2015.

The first half result also includes a number of one-off costs, including transaction costs associated with the acquisition of Tasman Power, a bad debt incurred in association with the failure of Western Desert Resources and one-off redundancy and restructure costs incurred in December as part of EAL's Profit Improvement Program.

As part of the Company's Profit Improvement Program the decision was made, in anticipation of reduced levels of demand, to close Ottoway Engineering's Dalby workshop in December 2014. Work in hand and future orders from Queensland will now be fabricated in Adelaide.

Mr Young said 'EAL continues to adapt each of our subsidiaries' cost structures to meet our clients' requirements in the market and expect as a consequence EAL will maintain its revenue and rebuild its profitability from its diversified portfolio of businesses'. EAL is focussed on changing its business cost structure to ensure it is able to meet its clients' expectations.

The Company's Profit Improvement Program continues and the majority of the initiatives will be implemented by 31 March 2015. Mr Young said 'EAL subsidiaries are presently trading across a range of industries all of whom are experiencing significant challenges. In addition to the renewable energy industry, the oil and gas industry and the mining industry are facing commodity prices which are at 10-year lows. The defence industry, and in particular, the naval ship building industry, face strategic and political uncertainties in respect of both the frigates and the replacement of the Collins-class submarine programs'.

Whilst market conditions are expected to remain challenging, overall tender activity remains positive with immediate and emerging opportunities, albeit in a competitive market. EAL subsidiaries are presently engaged having submitted tenders for work in respect of the expansion of Olympic Dam, the Nyrstar Transformation Project, the Port Bonython fuel farm upgrade, the Sundrop desalination project and various others including the Roy Hill iron ore project.

In addition to project opportunities, EAL subsidiaries remain well-placed to win and perform the growing maintenance requirements that will arise from the $300 billion of mining and resource capacity completed in Australia over the past three years and EAL subsidiaries continue to tender for these opportunities.

Mr Young noted the performance and record level of secured work of the recently acquired subsidiary Tasman Power and highlighted the opportunity for a number of EAL's businesses to grow their maintenance service offerings. Mr Young said 'the anticipated level of new major project capital expenditure in extractive industries will continue to decrease, however it is expected to be offset in part by maintenance and shutdown services to be undertaken by EAL subsidiary companies'.

EAL's second-half performance is budgeted to be stronger than the first-half and expectations for that outcome remain, as it expected a number of EAL's operating entities will convert their solid pipeline of shutdown and maintenance work opportunities.

EAL is continuing to progress a number of large material contract variations and delay claims. Mr Young said he expected a number of these claims to be resolved by 30 June 2015, which would strengthen the Company's Balance Sheet and significantly reduce debt levels.

As stated above, these anticipated results are based on internal Management Accounts and may be subject to change following completion of the Half-Year review by the Company's auditor and consideration by the Board.

This update has been released to satisfy the requirements of ASX listing rule 3.1 and ASX Guidance Note 8.

EAL plans to release its half-year results on or about 26 February 2015, at which time it will provide a full update of its half-year operating and financial performance in FY15, outlook for the remainder of the financial year and declaration of its interim dividend following consideration by the Board.

For further information:

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