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Ottoway Engineering - Contractual Issues

E&A Limited (**EAL**) advises that one of its wholly owned subsidiaries, Ottoway Engineering Pty Ltd (**Ottoway Engineering**), has experienced construction and contractual issues associated with the completion of its contract to provide mechanical, structural and piping installation services for the new Royal Adelaide Hospital.

Ottoway Engineering was directed by its client BSA Limited (**BSA**), on behalf of design and construction partners Hansen Yuncken and Leighton Contractors Joint Venture (**HYLC**), to:

- vary the scope of works to accommodate changes by HYLC to the design, which were required to mitigate the potential impact of any earthquake;
- accelerate its contract works to alleviate the impact of the delays associated with the changes in design; and
- change approximately 400 butterfly valves which had previously been approved for installation.

Ottoway Engineering claims that it is entitled to variations in respect of these directions, the majority of which are not yet approved.

Last Friday, Ottoway Engineering entered into a Contract Completion Plan Agreement with BSA, which addressed a number of issues including prompt payment arrangements, which should enable Ottoway Engineering to achieve Practical Completion by the original scheduled date of 26 June 2015.

Further, Ottoway Engineering is experiencing contractual difficulties in respect of completion of the dewatering buildings which it is constructing at Cape Preston.

The delivery of certain free issue materials for the project has been substantially delayed and at the direction of the client, works have been accelerated in order to ensure they are completed in line with the initial construction schedule. A number of technical construction issues have also arisen in respect of the design, scope and quality of client issued materials and these issues have the potential to further delay the completion of the contract works.

Ottoway Engineering is presently endeavouring to negotiate a Contract Completion Plan which is acceptable to all parties.

Shareholders will be aware from previous announcements that the outstanding claims against McConnell Dowell in respect of the Roma Hub Project, which has been completed, are progressing through the dispute resolution process as stipulated by the contract. In this regard, Ottoway Engineering advises that the scheduled meeting between senior executives, as required by the dispute resolution process, was unsuccessful in resolving this dispute. The dispute is now scheduled for mediation in late June 2015.

As a consequence of the board taking a conservative approach to these issues, Ottoway Engineering will incur a loss for the full year ended 30 June 2015 and as a result, E&A Limited will also incur a loss. As a consequence of these matters, it is not possible to provide further guidance on E&A Limited's financial result for the full year. In these circumstances, the board has determined that it would not be prudent to declare an interim dividend.

Shareholders will be provided market updates as these matters are resolved.

On a positive note, EAL advises that whilst trading conditions continue to remain most challenging, a number of EAL operating subsidiaries continue to reduce their operating costs and win new work. Specifically, Fabtech has won \$15 million of new work this calendar year and Tasman Power continues to perform above expectations, having recently secured new shutdown maintenance agreements.

Finally, the Government's recent in principle agreement with the Labor opposition to settle on a renewable energy target of 33,000 GWH by 2020 should, provided the legislation passes the Senate, provide significant wind tower fabrication opportunities for Ottoway Fabrication.

For further information:

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