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www.ugllimited.com

7 November 2016

The Manager
Company Announcements Office
ASX Limited

Dear Sir/Madam

UGL Limited (ASX:UGL) – takeover bid by CIMIC Group Investments No. 2 Pty Limited ACN 610 264 189 Target's Statement

We attach, by way of service pursuant to item 14 of section 633(1) of the Corporations Act 2001 (Cth), a copy of the target's statement of UGL Limited ACN 009 180 287 (**UGL**) in response to the off-market takeover bid by CIMIC Group Investments No. 2 Pty Limited ACN 610 264 189, a wholly owned subsidiary of CIMIC Group Limited ACN 004 482 982, for all the ordinary shares in UGL.

Yours sincerely

LNikolo

Lyn Nikolopoulos
Company Secretary

UGL Limited
(ACN 009 180 287)

TARGET'S STATEMENT

This Target's Statement has been issued in response to the off-market takeover bid made by CIMIC Group Investments No. 2 Pty Limited (ACN 610 264 189) (a wholly owned subsidiary of CIMIC Group Limited (ACN 004 482 982)) for all the ordinary shares in UGL Limited.

This is an important document and requires your immediate attention. If you are in any doubt about how to deal with this document, you should contact your broker, financial adviser or legal adviser immediately.

Financial advisers to UGL

Goldman Sachs

GRESHAM

Australian legal adviser to UGL

HERBERT SMITH FREEHILLS

Important notices

This document is a Target's Statement issued by UGL Limited (ACN 009 180 287) under Part 6.5 Division 3 of the Corporations Act in response to the off-market takeover bid made by CIMIC Group Investments No. 2 Pty Limited (ACN 610 264 189) (a wholly owned subsidiary of CIMIC Group Limited (ACN 004 482 982)), for all the ordinary shares in UGL. A copy of this Target's Statement was lodged with ASIC and given to ASX on 7 November 2016. Neither ASIC nor ASX nor any of their respective officers take any responsibility for the content of this Target's Statement.

Key dates

Date of CIMIC's Offer	25 October 2016
Date of this Target's Statement	7 November 2016
Close of CIMIC's Offer Period (unless extended or withdrawn)	7.00pm (AEDT) on 25 November 2016

UGL shareholder information line
UGL has established a shareholder information line which UGL Shareholders may call if they have any queries in relation to CIMIC's Offer. The telephone number for the UGL shareholder information line is 1300 415 866 (for calls made from within Australia) or +61 2 8022 7947 (for calls made from outside Australia). Calls to the UGL shareholder information line may be recorded.

Further information relating to CIMIC's Offer can be obtained from UGL's website at www.ugllimited.com.

Defined terms and abbreviations
A number of terms and abbreviations used in this Target's Statement have defined meanings. These terms and abbreviations are capitalised and have the meanings given to them in section 10 of this Target's Statement. In addition, unless the contrary intention appears or the context requires otherwise, words and phrases used in this Target's Statement that are defined in the Corporations Act have the same meaning and interpretation as in the Corporations Act.

Effect of rounding
A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Target's Statement are subject to the effect of rounding. Accordingly their actual calculations may differ from the calculations set out in this Target's Statement.

No account of personal circumstances
This Target's Statement and the recommendations contained in it should not be taken as, and do not constitute, personal advice as they do not take into account your individual objectives, financial situation or particular needs. As such, you are encouraged to seek independent financial, legal and taxation advice before making a decision as to whether or not to accept the Offer.

Disclaimer as to forward looking statements
Some of the statements appearing in this Target's Statement (including in the Independent Expert's Report) may be in the nature of forward looking statements. All forward looking statements in this Target's Statement (including in sections 4.1 to 4.4 and in the Independent Expert's Report) reflect views only as at the date of this Target's Statement, and generally may be identified by the use of forward looking words such as "believe", "aim", "expect", "anticipate", "intending", "foreseeing", "likely", "should", "planned", "may", "estimate", "potential", or other similar words. Similarly, statements that describe the objectives, plans, goals or expectations of UGL or the UGL Group may be forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry in which UGL operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. Any such statements are also affected by a range of variables which include but are not limited to price fluctuations, currency fluctuations, actual demand, operating results, governmental and regulatory factors and economic, financial and political conditions in various countries. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement. None of UGL, UGL's officers and employees, any persons named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement, makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward looking statement.

Disclaimer as to information
The information on CIMIC, CIMIC Group and CIMIC Group's securities contained in this Target's Statement has been prepared by UGL using publicly available information. The information in the Target's Statement concerning CIMIC and CIMIC Group and those companies' assets and liabilities, financial position and performance, profits and losses and prospects, has not been independently verified by UGL. Accordingly UGL does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

Foreign jurisdictions
The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside Australia.

Maps and diagrams
Any diagrams, charts, maps, graphs and tables appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available at the date of this Target's Statement.

Privacy
UGL has collected your information from the UGL register of shareholders for the purpose of providing you with this Target's Statement. The type of information UGL has collected about you includes your name, contact details and information on your shareholding in UGL. Without this information, UGL would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of shareholders to be held in a public register. Your information may be disclosed on a confidential basis to UGL's related bodies corporate and external service providers (such as the share registry of UGL and print and mail service providers) and may be required to be disclosed to regulators such as ASIC. If you would like details of information about you held by UGL, please contact UGL at the address shown below. UGL's privacy policy is available at www.ugllimited.com/privacy-policy. The registered address of UGL is Level 10, 40 Miller Street, North Sydney New South Wales 2060, Australia.

Contents

Chairman's Letter

7 November 2016

Dear fellow UGL Shareholder,

You should have recently received a Bidder's Statement from CIMIC Group Investments No. 2 Pty Limited (**CIMIC**) (a wholly owned subsidiary of CIMIC Group Limited) containing its off-market cash takeover offer (**Offer)** for your shares in UGL Limited (**UGL**).

CIMIC is offering $3.15 cash per UGL Share (**Offer Price**) for all the shares in UGL that CIMIC does not already own or control.

The UGL Board (**Board**) recommends, by a majority of 4:1 (**Majority Directors**), that UGL Shareholders **ACCEPT** the Offer in the absence of a superior proposal.

In the Majority Directors' view, the decision as to whether or not to accept the Offer is finely balanced and depends on the circumstances for each individual shareholder, including risk profile, portfolio strategy, tax position, financial circumstances and investment time horizon.

After careful consideration of the Offer, the Majority Directors recommend that UGL Shareholders accept the Offer in the absence of a superior proposal. The key reasons for the Majority Directors' recommendation are set out below with full details of this recommendation outlined in section 2.1 of this Target's Statement.

(1) **The Independent Expert has concluded that the Offer is fair and reasonable, in the absence of a superior offer.** The Independent Expert has assessed that the value of UGL on a 100% controlling interest basis ranges from $3.11 to $3.94 per UGL Share. As the Offer Price falls within the Independent Expert's assessed range, the Independent Expert considers the Offer to be fair and reasonable.

(2) **The Offer represents an attractive premium to historic trading prices.** The Offer represents approximately a 47.2% premium to $2.14, being the undisturbed UGL closing share price on 7 October 2016[1] and approximately a 37.7% premium to UGL's volume weighted average price since announcement of the potential for a further Ichthys provision on 6 June 2016 of $2.29[2].

(3) **The Offer represents an attractive acquisition multiple.** The multiple implied by the Offer of 8.5x FY2016A EBITDA[3] is above the median historical EBITDA multiple realised in comparable transactions as outlined in the Independent Expert's Report[4] (of 6.1x for Infrastructure Services, 5.6x for Engineering Services and 4.6x for Other Services).

(4) **The Offer provides UGL Shareholders with certainty of receiving $3.15 per UGL Share in cash, which must be weighed against the risks associated with remaining a UGL Shareholder.** UGL currently has high debt levels relative to industry peers which makes it more susceptible to unforeseen events which may negatively impact the Base Business or the Ichthys Projects.

(5) **No superior proposal has emerged and CIMIC's Offer is final in the absence of a competing proposal.** Whilst there is a chance that a superior proposal for UGL emerges, as at the date of this Target's Statement this has not occurred and CIMIC's Offer is final and cannot be increased in the absence of a competing proposal.

1 Being the last trading day prior to 10 October 2016, the date upon which CIMIC announced its intention to make a takeover offer for UGL.

2 UGL's VWAP since the announcement of the potential for a further Ichthys provision represents the volume weighted average price of shares traded on and off the ASX for the period from 6 June 2016 to 7 October 2016. Data sourced from IRESS, which is not required to consent, and has not consented, to the use of any such references in this Target's Statement.

3 Assumes FY2016A EBITDA of $89.4m, $64.6m of net debt, $5.6m of minorities, contract loss provisions of $131.7m, restructure provisions of $8.1m and make good and onerous lease provisions of $17.7m as set out in UGL's FY2016 Balance Sheet and fully diluted shares on issue of 169.6m, comprised of 166,511,240 UGL Shares, 6,293,678 UGL Performance Rights and 389,155 UGL Rights less 3,564,001 UGL Shares held by the trustee of the UGL Employee Share Plan Trust.

4 Precedent transaction multiples based on section 6.4.2 of the Independent Expert's Report included at Attachment 3. Infrastructure Services include Clough (Jul-13): 7.8x, Tenix (Oct-14): 7.3x, T&C Services (Nov-13): 4.8x and Leighton (Mar-14): 4.5x. Engineering Services includes SMEC (May-16): 10.2x, Cardno (Oct-15): 9.2x, Coffey (Oct-15): 7.4x, SKM (Sep-13): 5.9x, Sedgman (Jan-16): 5.3x, GRD (Jun-09): 4.8x, Evans & Peck (Nov-09): 4.6x and Unidel (May-13): 4.1x. Other Services includes Skilled (Jun-15): 5.6x, Broadspectrum (Apr-16): 4.6x and Valemus (Dec-10): 4.3x.

(6) **The trading price of UGL Shares may fall in the absence of the Offer or a superior proposal.** The UGL Share price increased by 48.6% following the announcement of the Offer from an undisturbed closing price of $2.14 on 7 October 2016 to a closing price of $3.18 on 10 October 2016[5] . In the absence of the Offer and if no superior proposal emerges, the UGL Share price may fall immediately following the close of the Offer to below CIMIC's Offer Price.

(7) **Should CIMIC acquire a controlling ownership stake, there could be a number of potentially adverse consequences for non-accepting UGL Shareholders.** These include change of control provisions being triggered in material customer contracts and existing and proposed bank facilities as well as decreased liquidity in UGL Shares.

Notwithstanding the reasons outlined above, the Majority Directors recognise that UGL Shareholders with a greater tolerance for risk or a longer investment time horizon may consider rejecting the Offer.

Mr Robert Kaye SC, a Non-Executive Director, recommends that you reject the Offer as he is of the view that the Offer Price may not reflect the full underlying value of UGL. Mr Kaye SC's reasons for his recommendation are set out in section 2.2 of this Target's Statement.

The Offer is currently scheduled to close at 7.00pm (AEDT) on 25 November 2016 (unless withdrawn or extended).

The Board encourages you to read this Target's Statement, and the Bidder's Statement, having regard to your own circumstances. You should consider the Directors' reasons for their recommendations, as well as the risk factors which are set out in section 5.9 of this Target's Statement, and if you are in any doubt as to the action that you should take, please consult a professional adviser.

The Board will keep you updated on material developments as they occur. In the meantime, if you have any queries in relation to the Offer, please contact the UGL Shareholder Information Line on 1300 415 866 (calls within Australia) or +61 2 8022 7947 (calls from outside Australia).

Yours sincerely

Kathryn Spargo
Chairman

5 Based on the closing price of UGL shares on ASX. Data sourced from IRESS.

1

RECOMMENDATION OF THE UGL DIRECTORS

1. Recommendation of the UGL Directors

1.1 Introduction

The UGL Board recommends, by a majority of 4:1, that UGL Shareholders accept the Offer in the absence of a superior proposal.

In the Majority Directors' view, the decision as to whether or not to accept the Offer is finely balanced and depends on the circumstances for each individual UGL Shareholder, including risk profile, portfolio strategy, tax position, financial circumstances and investment time horizon.

After careful consideration of the Offer, the Majority Directors recommend that UGL Shareholders accept the Offer in the absence of a superior proposal. The key reasons for the Majority Directors' recommendation are set out in section 2.1 of this Target's Statement.

Notwithstanding the reasons outlined above, the Majority Directors recognise that UGL Shareholders with a greater tolerance for risk or a longer investment time horizon may consider rejecting the Offer.

Mr Robert Kaye SC, a Non-Executive Director, recommends that you reject the Offer as he is of the view that the Offer Price may not reflect the full underlying value of UGL. Mr Kaye SC's reasons for his recommendation are set out in section 2.2 of this Target's Statement.

In considering whether to accept the Offer, you are encouraged to:

- read the whole of this Target's Statement (including the Independent Expert's Report) and the Bidder's Statement;
- have regard to your individual risk profile, portfolio strategy, tax position, financial circumstances and investment time horizon;
- consider the choices available to you as noted in section 5.3; and
- obtain financial advice from your broker or financial adviser in relation to the Offer and obtain taxation advice on the effect of accepting the Offer.

1.2 Intentions of your Majority Directors in relation to the Offer

Each Majority Director who has a relevant interest in UGL Shares presently intends to accept the Offer in relation to those UGL Shares, in the absence of a superior proposal.

Details of the relevant interests of each Majority Director in UGL Shares are set out in section 7.1.

2

REASONS FOR YOUR UGL DIRECTORS' RECOMMENDATIONS

2. Reasons for your UGL Directors' recommendations

2.1 Reasons to **ACCEPT** the Offer as recommended by the Majority Directors

1 The Independent Expert has concluded that the Offer is fair and reasonable, in the absence of a superior offer

The Board commissioned Grant Samuel as Independent Expert to undertake an independent assessment of the Offer.

As set out in its report in Attachment 3, the Independent Expert assessed that the value of UGL on a 100% controlling interest basis ranges from $3.11 to $3.94 per UGL Share.

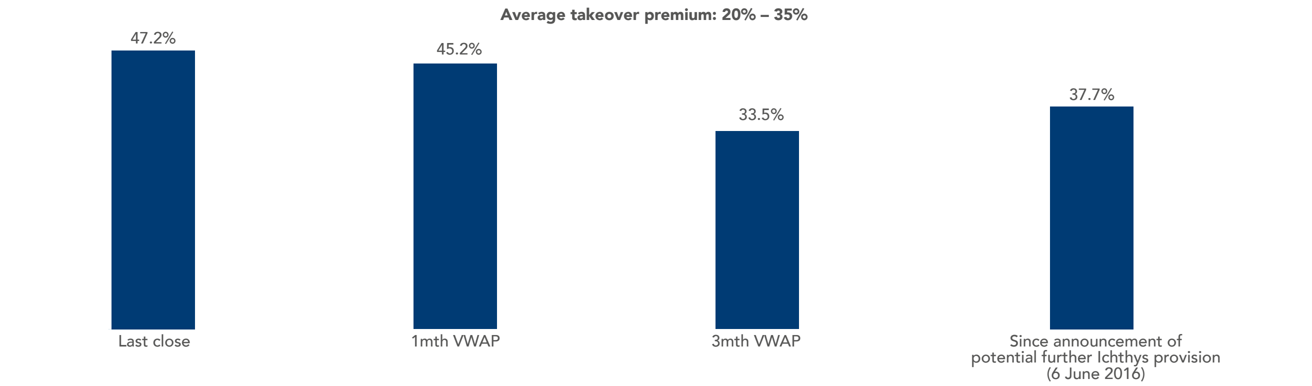
As the Offer Price falls within the Independent Expert's assessed range, the Independent Expert considers the Offer to be fair and reasonable.

2 The Offer represents an attractive premium to historic trading prices

The Offer of $3.15 per UGL Share represents a premium to the undisturbed trading price of UGL Shares of $2.14[1] and to UGL's volume weighted average price since the announcement of the potential for a further Ichthys provision of $2.29[2] per UGL Share, of 47.2% and 37.7% respectively.

These premia are in excess of the 20-35% levels typically observed in takeovers[3] as outlined in section 6.2.2 of the Independent Expert's Report.

Implied Offer premium versus Australian average takeover premium[4]



1 The undisturbed trading price represents the closing price of UGL Shares on ASX on 7 October 2016, the last trading day prior to 10 October 2016, the date upon which CIMIC announced its intention to make a takeover bid for UGL.

2 UGL's VWAP since the announcement of the potential for a further Ichthys provision represents the volume weighted average price of shares traded on and off the ASX for the period from 6 June 2016 to 7 October 2016. Data sourced from IRESS.

3 As set out in section 6.2.2 of the Independent Expert Report which is included in Attachment 3 to the Target's Statement.

4 Last close represents the closing price of UGL share on ASX on 7 October 2016, the last trading day prior to 10 October 2016, the date upon which CIMIC announced its intention to make a takeover offer for UGL. One-month VWAP represents the volume weighted average price of shares traded on and off the ASX for the period from 8 September 2016 to 7 October 2016. Three-month VWAP represents the volume weighted average price of shares traded on and off the ASX for the period from 8 July 2016 to 7 October 2016. VWAP since the announcement of the potential for a further Ichthys provision represents the volume weighted average price of shares traded on and off the ASX for the period from 6 June 2016 to 7 October 2016. Data sourced from IRESS.

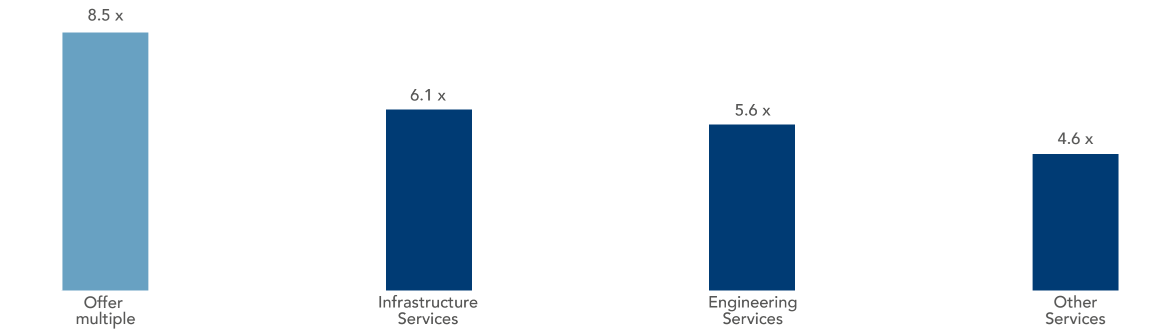
2. Reasons for your UGL Directors' recommendations

3 The Offer represents an attractive acquisition multiple

The Offer represents an attractive acquisition multiple based on analysis of acquisition multiples in comparable transactions within UGL's industry.

The multiple implied by the Offer is 8.5x FY2016 EBITDA[5] which is above the median historical EBITDA multiples realised in comparable transactions as outlined in section 6.4.2 of the Independent Expert's Report (of 6.1x for Infrastructure Services, 5.6x for Engineering Services and 4.6x for Other Services).[6]

Offer enterprise value / historical EBITDA[7] versus comparable transactions



On an FY2017 basis, the multiple implied by the Offer is 8.3x FY2017F EBIT[8] which is above the median forecast EBITA multiple realised in comparable transactions[9] as outlined in section 6.4.2 of the Independent Expert's Report (of 7.7x for Infrastructure Services, 7.8x for Engineering Services and 6.0x for Other Services).[10]

5 Assumes FY2016A EBITDA of $89.4m, $64.6m of net debt, $5.6m of minorities, contract loss provisions of $131.7m, restructure provisions of $8.1m and make good and onerous lease provisions of $17.7m as set out in UGL's FY2016 Balance Sheet and fully diluted shares on issue of 169.6m, comprised of 166,511,240 UGL Shares, 6,293,678 UGL Performance Rights and 389,155 UGL Rights less 3,564,001 UGL Shares held by the UGL Employee Share Plan Trust.

6 Precedent transaction multiples based on section 6.4.2 of the Independent Expert's Report included at Attachment 3 to the Target's Statement. Infrastructure Services includes Clough (Jul-13): 7.8x, Tenix (Oct-14): 7.3x, T&C Services (Nov-13): 4.8x and Leighton (Mar-14): 4.5x. Engineering Services includes SMEC (May-16): 10.2x, Cardno (Oct-15): 9.2x, Coffey (Oct-15): 7.4x, SKM (Sep-13): 5.9x, Sedgman (Jan-16): 5.3x, GRD (Jun-09): 4.8x, Evans & Peck (Nov-09): 4.6x and Unidel (May-13): 4.1x. Other Services includes Skilled (Jun-15): 5.6x, Broadspectrum (Apr-16): 4.6x and Valemus (Dec-10): 4.3x.

7 Assumes FY2016A EBITDA of $89.4m, $64.6m of net debt, $5.6m of minorities, contract loss provisions of $131.7m, restructure provisions of $8.1m and make good and onerous lease provisions of $17.7m as set out in UGL's FY2016 Balance Sheet and fully diluted shares on issue of 169.6m, comprised of 166,511,240 UGL Shares, 6,293,678 UGL Performance Rights and 389,155 UGL Rights less 3,564,001 UGL Shares held by the UGL Employee Share Plan Trust.

8 Assumes FY2017F EBIT of $91.6m, $64.6m of net debt, $5.6m of minorities, contract loss provisions of $131.7m, restructure provisions of $8.1m and make good and onerous lease provisions of $17.7m as set out in UGL's FY2016 Balance Sheet and fully diluted shares on issue of 169.6m, comprised of 166,511,240 UGL Shares, 6,293,678 UGL Performance Rights and 389,155 UGL Rights less 3,564,001 UGL Shares held by the trustee of the UGL Employee Share Plan Trust.

9 EBITA multiples per the Independent Expert's Report exclude only amortisation of intangibles from acquisitions and are therefore comparable to UGL's forecast EBIT.

10 Precedent transaction multiples based on section 6.4.2 of the Independent Expert's Report included at Attachment 3 to the Target's Statement. Infrastructure Services includes Leighton (Mar-14): 9.2x, John Holland (Dec-14): 7.7x and Clough (Jul-13): 7.6x. Engineering Services includes Cardno (Oct-15): 11.0x, GRD (Jun-09): 8.4x, SKM (Sep-13): 7.1x and Sedgman (Jan-16): 6.2x. Other Services includes Skilled (Jun-15): 7.7x, Broadspectrum (Apr-16): 6.0x and Valemus (Dec-10): 4.8x.

4 The Offer provides UGL Shareholders with certainty of receiving $3.15 per UGL Share in cash, which must be weighed against the risks associated with remaining a UGL Shareholder

While the Board believes that the turnaround of the Base Business is well advanced and the Ichthys Projects are adequately provisioned as at 31 October 2016, UGL's debt levels are higher than industry peers with net debt expected to be approximately $174- $214 million at 30 June 2017.

This relatively high debt position makes UGL more susceptible to unforeseen events which may negatively impact the Base Business or the Ichthys Projects.

To the extent that these events extend beyond UGL's available headroom, this may pose challenges which could require UGL to explore alternative funding sources.

In contrast, the Offer is $3.15 per UGL Share in cash.

If you accept the Offer and the Offer becomes or is declared unconditional, CIMIC will pay you by the later of:

- 7 business days after the date of receipt of your valid acceptance; and
- 7 business days after the Offer becomes or is declared unconditional.

The Independent Expert noted "As the Offer Price of $3.15 falls within the value range, the Offer is fair. As it is fair, the Offer is also reasonable. In any event, there are a number of factors that support reasonableness" and "Shareholders with a low risk appetite will find the certainty of $3.15 in cash attractive…".[11]

5 No superior proposal has emerged and CIMIC's Offer is final in the absence of a competing proposal

There is the potential for a proposal from a third party that is superior to the Offer to emerge.

However, as at the date of this Target's Statement no superior proposal has emerged. If a superior proposal does arise prior to the end of the Offer Period, this will be announced to ASX and the Board will carefully consider the proposal and advise UGL Shareholders of their recommendation.

In addition, CIMIC has stated that the Offer is final and the effect of this statement is that CIMIC will not be able to increase the Offer Price above $3.15 per UGL Share in the absence of a competing proposal.

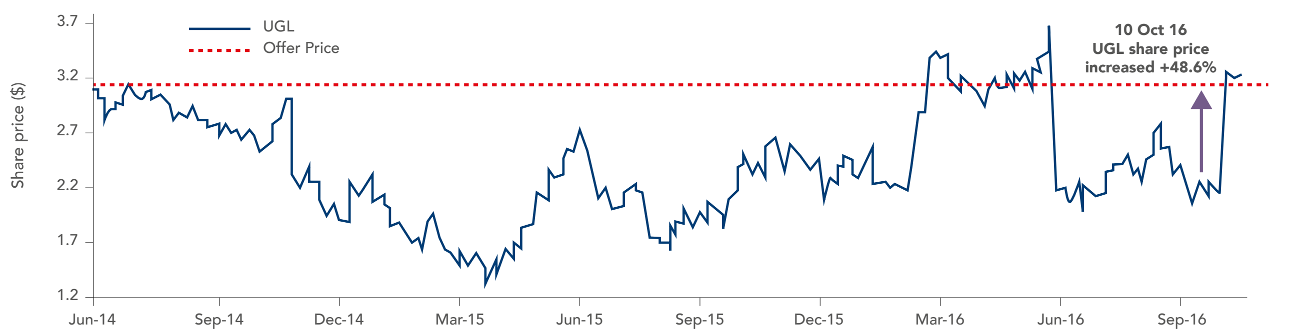
11 As set out in the Executive Summary and section 7.3 of the Independent Expert Report which is included in Attachment 3 to the Target's Statement.

2. Reasons for your UGL Directors' recommendations

6 The trading price of UGL may fall in the absence of the Offer or a superior proposal

The UGL Share price increased by 48.6% following the announcement of the Offer from an undisturbed closing price of $2.14 on 7 October 2016 to a closing price of $3.18 on 10 October 2016[12].

Share price reaction to Offer[12]



Since the Offer was announced, UGL Shares have traded in a range between $3.16[14] and $3.26[15] per UGL Share. The Board believes that in the absence of the Offer and if no superior proposal emerges, the UGL Share price may fall immediately following the close of the Offer to below CIMIC's Offer Price.

The Board notes that given the prices at which UGL has been trading on the ASX since the Offer was announced, there may be an opportunity for some UGL Shareholders to sell their UGL Shares on the ASX at prices above the Offer Price.

12 Based on the closing price of UGL Shares on the ASX. Data sourced from IRESS.
13 Data sourced from IRESS.
14 Intraday low on 10 October 2016. Data sourced from IRESS.
15 Intraday high on 12 October 2016. Data sourced from IRESS.

7 Should CIMIC acquire a controlling ownership stake, there could be a number of potentially adverse consequences for non-accepting UGL Shareholders

CIMIC currently has a relevant interest in 13.84% of UGL Shares. Under the terms of UGL's existing financing arrangements and proposed new terms of the bank facilities, if CIMIC acquires control of UGL, UGL may need to renegotiate these facilities or potentially explore alternative finance facilities. There is risk that additional debt sources may not be available on commercially acceptable terms due to uncertainties created by the Offer which may lead UGL to consider an equity raising in certain circumstances (see sections 4.5, 4.6 and 9.2 for further information).

Change of control provisions may be triggered in a number of UGL's material contracts, in some cases leading to adverse consequences for UGL.

UGL estimates that approximately 38% or $1.03 billion of the operating revenue UGL expects to recognise in FY2017 is derived from material contracts which contain provisions regarding a change of control.

Some of UGL's material contracts contain provisions regarding termination for convenience in favour of relevant counterparties, which may lead to adverse consequences for UGL. If these are included, the amount of operating revenue UGL expects to recognise in FY2017 which may be subject to adverse consequences increases to $1.41 billion (or to 53% of the operating revenue UGL expects to recognise in FY2017). See section 9.1 of this Target's Statement for further information.

The liquidity of UGL Shares may fall, and, depending on the UGL share price and level of CIMIC holding, there is a risk UGL could be fully or partially removed from certain market indices due to limited free float and / or liquidity.

To the extent CIMIC effects changes in the UGL Board and management after reaching control, UGL may not able to execute its current strategy, business plan or turnaround.

UGL's business mix may change under the management of CIMIC as CIMIC has indicated in the Bidder's Statement that it intends to conduct a strategic review of UGL's businesses and may determine that some assets should be divested on completion of its review.

CIMIC's proposed review of UGL's dividend and capital management policies may also result in changes to the existing capital structure of UGL, including a potential equity raising.

2. Reasons for your UGL Directors' recommendations

2.2 Reasons to **REJECT** the Offer as recommended by Mr Robert Kaye SC

Mr Robert Kaye SC recommends that UGL Shareholders reject the Offer.

Mr Kaye SC is of the view that the Offer Price may not reflect the full underlying value of UGL Shares.

The reasons why Mr Kaye SC believes a UGL Shareholder should reject the Offer are set out below.

1 The Offer of $3.15 per UGL Share is only marginally above the lowest end of the Independent Expert's valuation range of $3.11 to $3.94 per UGL Share

The Independent Expert has valued each UGL Share at between $3.11 and $3.94 per UGL Share. The Offer of $3.15 per UGL Share is substantially below the top end of the valuation range.

2 UGL has a strong Base Business and is well advanced in its turnaround

UGL's Base Business is performing solidly and has met guidance for its turnaround over the last 18 months. The Base Business operates in sectors that are well positioned for the current medium term economic cycle in Australia. The order book is robust with 84% of FY2017 and 50% of FY2018 revenue already committed through contracts secured in the order book.

3 The timing of the Offer is opportunistic given UGL's current exposure to the Ichthys Projects

The Offer has been timed opportunistically given the impact the Ichthys Projects are currently having on UGL's operating performance and share price. As at 31 October 2016, the Ichthys SMP and CCPP projects are both relatively advanced towards completion and adequately provisioned.

4 The Offer may not reflect the full strategic value of UGL to CIMIC

CIMIC has highlighted in its Bidder's Statement its belief in the complementary nature of CIMIC and UGL's businesses as well as its intention to leverage its capabilities to generate synergies from the transaction.

3

FREQUENTLY ASKED QUESTIONS

3. Frequently asked questions

This section answers some commonly asked questions about the Offer. It is not intended to address all relevant issues for UGL Shareholders. This section should be read together with all other parts of this Target's Statement.

QUESTION	ANSWER	Where to find further information
Who is the Bidder?	The Offer is being made by CIMIC Group Investments No. 2 Pty Limited ACN 610 264 189, a wholly owned subsidiary of CIMIC Group Limited ACN 004 482 982.	Section 6
What is CIMIC's Offer for my UGL Shares?	CIMIC is offering $3.15 cash for each UGL Share held by you.	Section 6
What choices do I have as a UGL Shareholder?	As a UGL Shareholder, you have the following choices in respect of your UGL Shares: • accept the Offer; • sell your Shares on the ASX (unless you have previously accepted the Offer and you have not validly withdrawn your acceptance); or • do nothing. There are several implications in relation to each of the above choices. A summary of these implications is set out in section 5.3.	Section 5.3
What are the UGL Directors recommending?	The UGL Board recommends, by a majority of 4:1, that UGL Shareholders accept the Offer in the absence of a superior proposal. In the Majority Directors' view, the decision as to whether or not to accept the Offer is finely balanced and depends on the circumstances for each individual shareholder, including risk profile, portfolio strategy, tax position, financial circumstances and investment time horizon. After careful consideration of the Offer, the Majority Directors recommend that UGL Shareholders accept the Offer in the absence of a superior proposal. The key reasons for the Majority Directors' recommendation are set out in section 2.1. Notwithstanding the reasons outlined in section 2.1, the Majority Directors recognise that UGL Shareholders with a greater tolerance for risk or a longer investment time horizon may consider rejecting the Offer. Mr Robert Kaye SC recommends that you reject the Offer as he is of the view that the Offer Price may not reflect the full underlying value of UGL. Mr Kaye SC's reasons for his recommendation are set out in section 2.2 of this Target's Statement.	Section 1
What are the reasons for the UGL Directors' recommendations?	In summary, the reasons the Majority Directors recommend that you accept the Offer at this stage are: • the Independent Expert, has concluded that the Offer is fair and reasonable, in the absence of a superior offer; • the Offer represents an attractive premium to historic trading prices; • the Offer represents an attractive acquisition multiple; • the Offer provides UGL Shareholders with certainty of receiving $3.15 per UGL Share in cash, which must be weighed against the risks associated with remaining a UGL Shareholder; • no superior proposal has emerged as at the date of this Target's Statement and CIMIC's Offer is final in the absence of a competing proposal; • the trading price of UGL Shares may fall in the absence of the Offer or a superior proposal; and • should CIMIC acquire a controlling ownership stake, there could be a number of potentially adverse consequences for non-accepting UGL Shareholders.	Chairman's letter and sections 2.1 and 2.2

QUESTION	ANSWER	Where to find further information
What are the reasons for the UGL Directors' recommendations? (continued)	In summary, the reasons Mr Robert Kaye SC recommends that you reject the Offer at this stage are: • the Offer of $3.15 per UGL Share is only marginally above the lowest end of the Independent Expert's valuation range of $3.11-$3.94 per UGL Share; • UGL has a strong Base Business and is well advanced in its turnaround; • the timing of the Offer is opportunistic given UGL's current exposure to the Ichthys Projects; and • the Offer may not reflect the full strategic value of UGL to CIMIC.	Chairman's letter and Sections 2.1 and 2.2
What are the Majority Directors doing with respect to any UGL Shares they own or control?	Each Majority Director who has a relevant interest in UGL Shares presently intends to accept the Offer in relation to those UGL Shares, in the absence of a superior proposal. Details of the relevant interests of each Majority Director in UGL Shares are set out in section 7.1.	Section 1
What does the Independent Expert say?	The Independent Expert has concluded that the Offer is fair and reasonable, in the absence of a superior offer.	Attachment 3
How do I accept the Offer?	Details of how to accept the Offer are set out in sections 1.2 and 9.4 of the Bidder's Statement.	Section 1.2 and 9.4 of the Bidder's Statement
What are the consequences of accepting the Offer now?	If you accept the Offer, unless withdrawal rights are available (see below), you will give up your right to sell your Shares on the ASX or otherwise deal with your Shares while the Offer remains open.	Section 6.7
If I accept the Offer, can I withdraw my acceptance?	You may only withdraw your acceptance if CIMIC has not declared the Offer to be unconditional and CIMIC varies the Offer in a way that postpones the time when CIMIC is required to satisfy its obligations by more than one month. See section 6.8 of this Target's Statement for further details.	Section 6.8
How do I reject the Offer?	UGL Shareholders who do not wish to accept the Offer should do nothing.	Section 5.3(c)
When do I have to make a decision on the Offer?	You must make a decision before the end of the Offer Period. If you decide to accept the Offer, your acceptance must be received by CIMIC before the end of the Offer Period. The Offer is presently scheduled to close at 7.00pm (AEDT) on 25 November 2016, but the Offer Period can be extended in certain circumstances.	Section 6.4
What are the risks of rejecting the Offer?	If you reject the Offer, you will remain a UGL Shareholder. If you remain a UGL Shareholder, you may become a minority Shareholder if more than 50% but less than 90% of UGL Shares are acquired by CIMIC under the Offer. This has a number of possible implications which are set out in sections 5.4 to 5.7. You should also be aware that there are risks associated with remaining a UGL Shareholder. Set out in section 5.9 are key risks which may affect the future operating and financial performance of UGL and the value of UGL Shares.	Sections 5.4 to 5.7
When does the Offer close?	The Offer is presently scheduled to close at 7.00pm (AEDT) on 25 November 2016, but the Offer Period can be extended in certain circumstances. See section 6.5 for details of the circumstances in which the Offer Period can be extended.	Section 6.4

3. Frequently asked questions

QUESTION	ANSWER	Where to find further information
What are the conditions to the Offer?	The Offer is subject to a "prescribed occurrences" condition only. In summary, these "prescribed occurrences" include: • UGL splitting or consolidating its shares; • UGL issuing shares or granting an option over its shares, or agreeing to make such an issue or grant such an option;* • UGL or a subsidiary of UGL buying-back or reducing its capital; • UGL or a subsidiary of UGL issuing convertible notes; • UGL or a subsidiary of UGL disposing of the whole or a substantial part of its business or property; • UGL or a subsidiary of UGL granting security over the whole or a substantial part of its business or property; and • the occurrence of certain insolvency related events in respect of UGL or a subsidiary of UGL. *CIMIC has confirmed that, if UGL issues new UGL Shares on or after the Register Date and before the end of the Offer Period as a result of the vesting of any of the UGL Performance Rights or UGL Rights (that were on issue at the Register Date), CIMIC may not regard such issuance as non-fulfilment of the condition.	Section 6.2
What happens if the condition of the Offer is not satisfied or waived?	If the prescribed occurrence condition is not satisfied or waived before the Offer closes, the Offer will lapse. You would then be free to deal with UGL Shares even if you had accepted the Offer.	Section 6.11
Will CIMIC increase the Offer?	CIMIC has declared its Offer to be 'final', in the absence of a competing proposal. Accordingly, CIMIC cannot increase its Offer, in the absence of a competing proposal.	Section 6.10
Is there any minimum acceptance condition?	No. The Offer is not subject to a minimum acceptance condition.	
What does CIMIC's stake mean for the Offer?	CIMIC announced on 10 October 2016, that it had acquired a relevant interest in 13.84% of the UGL Shares. CIMIC's 13.84% does not prevent other parties from making an offer for your UGL Shares at a higher price and/or superior terms than CIMIC's Offer. CIMIC's 13.84% interest results in CIMIC having fewer UGL Shares to acquire before it acquires a relevant interest in 50% or 90% of the UGL Shares	
When will I be sent my consideration if I accept the Offer?	If you accept the Offer, you will have to wait for the Offer to become unconditional before you will be sent your consideration from CIMIC. CIMIC has provided in its Bidder's Statement that subject to section 9 of its Bidder's Statement, the Corporations Act and ASIC Class Order 13/521, if you accept the Offer you will be sent your consideration on or before the later of: • where the Offer is unconditional, 7 business days after the date on which the Offer is accepted; or • if the Offer is subject to the condition referred to in section 6.2 when accepted, within 7 business days after the date on which the Offer becomes unconditional. However, there are certain exceptions to the above timetable for the issuing of consideration. Full details of when you will be issued your consideration if you accept the Offer are set out in section 9.9 of the Bidder's Statement.	Section 6.9

QUESTION	ANSWER	Where to find further information
Can I be forced to sell my UGL Shares?	You cannot be forced to sell your UGL Shares unless CIMIC compulsorily acquires your UGL Shares. CIMIC would need to obtain a relevant interest in 90% or more of the UGL Shares in order to proceed to compulsory acquisition.	Section 6.12
What are CIMIC's intentions wth respect to UGL's business?	CIMIC's intentions in relation to the continuation of UGL's businesses, any major changes to be made to the businesses of UGL (including any redeployment of the fixed assets of UGL), changes to the UGL Board and the future employment of present employees of UGL are set out in section 4 of its Bidder's Statement.	Section 4 of the Bidder's Statement
Can CIMIC withdraw its Offer?	CIMIC may not withdraw the Offer if you have already accepted it. Before you accept the Offer, CIMIC may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent. However, the Offer is conditional. If the condition to the Offer is not fulfilled or freed by the end of the Offer Period, the Offer will lapse, in which case, all contracts resulting from acceptance of the Offer and all acceptances that have not resulted in binding contracts are void. In that situation, you will be free to deal with your UGL Shares as you see fit.	Section 6.6
What are the tax implications of accepting the Offer?	A general outline of the tax implications of accepting the Offer is set out in section 8 of this Target's Statement. As the outline is a general outline only, UGL Shareholders are encouraged to seek their own specific professional advice as to the taxation implications applicable to their circumstances.	Section 8
Is there a number that I can call if I have further queries in relation to the Offer?	If you have any further queries in relation to the Offer, you can call 1300 415 866 (for calls made from inside Australia) or +61 2 8022 7947 (for calls made from outside Australia). Calls to these numbers may be recorded.	Important notices

4

OVERVIEW OF UGL AND OPERATIONAL UPDATE

4. Overview of UGL and operational update

4.1 Overview of UGL

(a) Overview

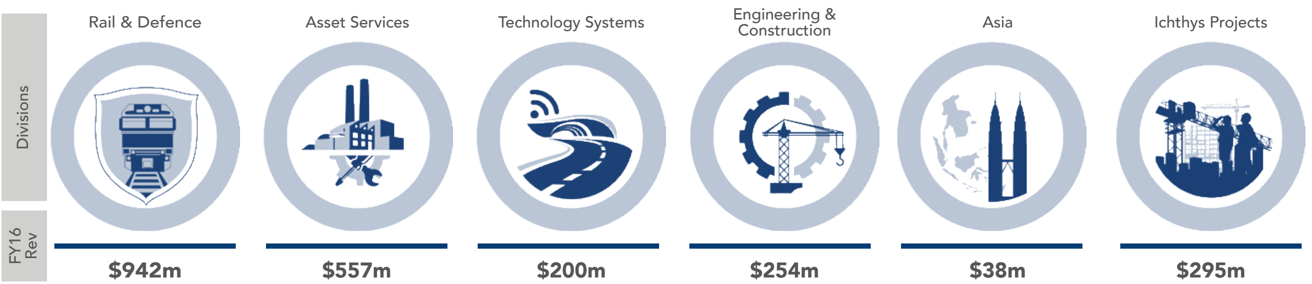
UGL is a leading provider of engineering, construction and maintenance services with a diversified end-market exposure across the core sectors of rail, transport and communication systems, oil and gas, power, water, resources and defence.

UGL was originally founded in 1970 as a small engineering business in Western Australia and listed on the ASX in 1994.

Headquartered in Sydney, UGL operates across Australia, New Zealand and South East Asia, employing over 10,000 people including subcontractors.

(b) Operating model

UGL's operating model comprises six divisions which align similar service delivery models and expertise by sector and client focus.



(c) Vision and strategy

UGL's vision is to be an industry disruptor that dominates the Australian market through the application of world leading technology and execution capabilities taking the smartest solutions to our clients and sectors globally.

Lead in safety and sustainability

Achieve Zero Harm in our work practices and provide a genuine health focus for our employees. Be a sustainable enterprise in our own right and a leader in delivering projects that are sustainable across the asset lifecycle.

Build our portfolio strengths through innovation

Invest in attractive markets where we have differential ability to win and ensure a relentless focus on cost and productivity optimisation across our businesses to deliver global best practice industry performance and drive a culture of innovation across UGL.

Build a world class talent base

Build, develop and retain a world class talent base. Value, engage and empower our people ensuring that UGL's values and culture as consistently and genuinely lived across the business.

Be the partner of choice

Build a portfolio of loyal customers by always looking to exceed their expectations through a constant relentlessness to improve and innovate to deliver superior value.

Consistently deliver

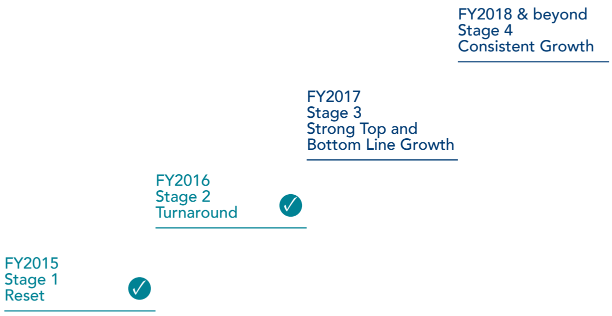
Rigorously apply standards, processes and procedures matched to the correct capability to enable consistent industry leading delivery as above target margin (no project surprises).

Deliver strong economic returns for shareholders

Reliably deliver EPS growth of 10%+ p.a. and ASX 200 Industrials Index top quartile shareholder returns. Hold a market reputation for predictably delivering on guidance.

Our vision is being delivered through a clear four stage process, with the first stages complete. In FY2017 our focus is on growth in revenue through contracts already secured which combined with improved profitability will drive bottom line growth. We intend that beyond FY2017 our focus will be on delivering consistent growth in earnings and building UGL as a sustainable company into the future.

4. Overview of UGL and operational update

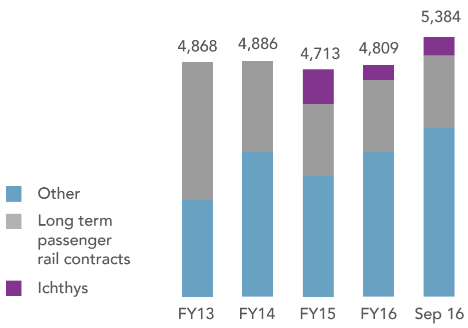


(d) Client base and revenue profile

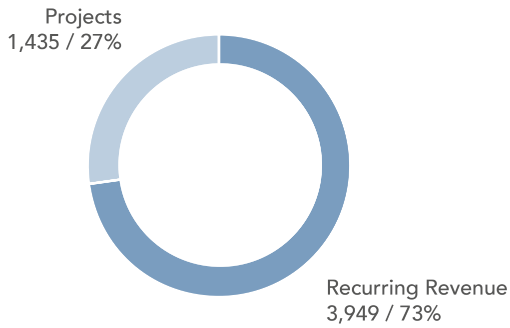
UGL's clients and partners include blue-chip companies, government agencies, private enterprise and public institutions.

As at 30 September 2016, UGL has a secured order book of approximately $5.4 billion, of which 73% is recurring revenue. UGL has approximately 84% of expected FY2017F revenue currently secured through contracts in the order book.

Order book over time ($m)

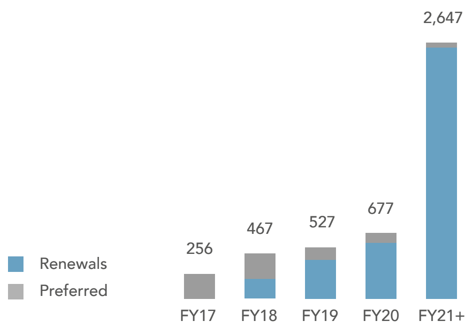


Order book mix – September 2016 ($m)



As at 30 September 2016, beyond our secured committed order book, we have a further $4.6 billion in preferred opportunities and existing contracts with renewal or extension options.

Renewals and preferred pipeline opportunities – September 2016 ($m)



Notes:

- 'Renewals' are secured contracts with renewal options which are excluded from the UGL order book.
- 'Preferred opportunities' occur where UGL has been advised of preferred contractor status however contract execution is yet to occur and as such revenue is not included in the UGL order book.

4.2 Operational update

(a) Contract wins and extensions

In FY2016, UGL secured new contracts and extensions of existing contracts that are expected to earn approximately $2.4 billion of revenue over the life of the contracts.

In the first quarter of FY2017, UGL has secured additional new contracts and extensions of existing contracts that are expected to earn approximately $1.2 billion of revenue over the life of the contracts.

(b) Overview of the Ichthys Projects

The Ichthys LNG Project is one of the world's largest LNG developments. Once complete, gas from the Ichthys Field in the Browse Basin offshore of Western Australia will be transported via an 890 kilometre pipeline to onshore facilities for processing in Bladin Point, near Darwin in the Northern Territory.

The lead contractor for the construction of the Ichthys onshore facilities is JKC Australia, a joint venture between JGC Corporation, KBR and Chiyoda Corporation. UGL is party to two contracts as part of the onshore construction, the installation of the LNG processing trains and the design and construction of the combined cycle power plant.

The installation of the processing trains is a structural, mechanical and piping project, referred to in this document as the SMP Project. The design and construction of the combined cycle power plant is referred to as the CCPP Project.

Key details regarding the projects are provided in the table below.

Details	SMP Project	CCPP Project
Contract value	$1,060m[1] ($530m UGL share)	$720m ($360m UGL share)
Contract type	Combined lump sum and schedule of rates	Lump sum
Scope	Construction only of the LNG processing trains, using client design and supplied materials and modules	Design, supply, construct and commission the balance of plant around GE power plant technology
Delivery partner	50/50 joint venture between UGL and Kentz Corporation	50/50 joint venture between UGL and CH2M The joint venture together with GE (the "**Consortium**") is contracted to supply turbines and generators for the power plant

Project status

SMP

As at 31 October 2016, the Ichthys SMP Project is approximately 60% complete. UGL is undertaking construction across three main work packages with the stage of completion across these packages as below:

- LNG Train 1 – approximately 37% complete;
- LNG Train 2 – approximately 74% complete; and
- Gas receiver and slug catcher – approximately 97% complete.

The SMP Project has continued to be impacted by ongoing client variations and delays. These issues have resulted in further anticipated delays to the construction completion schedule and the project is now expected to be completed by October 2017.

CCPP

As at 31 October 2016, the CCPP Project is around 87% complete on the base scope at the Consortium level. At the CH2M UGL joint venture level, work is around 79% complete overall, with design and procurement largely complete, and construction around 66% complete.

Now in the construction and pre-commissioning phases, the project continues to experience delays to completion with the client still to confirm the timing of the supply of the feed gas, electrical power loads, plant utilities and several other items. As a result of this, it is now anticipated that project completion will be delayed from January 2018 to October 2018. This further slippage of the likely completion date has increased both the forecast cost to complete the project as well as the potential claims.

1 Including $35 million in incentive payments as part of the settlement agreement, which are conditional upon achieving agreed milestones.

4. Overview of UGL and operational update

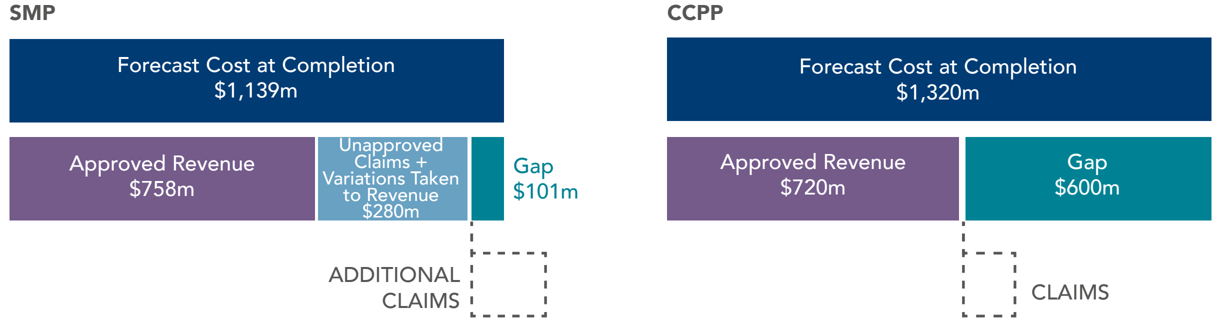
Project financial position as at 30 June 2016

A total provision of $375 million has been taken across both projects, comprising a $175 million provision on the CCPP Project raised in FY2015 and an additional $200 million provision taken across both projects in FY2016.

These provisions were set on the basis of forecasting the project cost to complete inclusive of an anticipated level of ongoing delay and disruption, allowing for any associated UGL only management oversight costs, and only including revenue that was formally approved or was very likely to be approved. The resulting project level gap/surplus and the UGL only management oversight costs totalled to the overall $375 million provision.

As such, any claims approved or agreed outside this were either future potential upside or provided potential contingencies against any future increases to the forecast costs.

Illustrated in the diagrams below are the components underlying the project provision as at 30 June 2016. Note that all values referred to below reflect 100% of the respective projects and UGL's interest is 50% of these values. They do not include the UGL only management oversight costs.



Project % completion: 42%	Project % completion: 81%

Note: Diagrams are for illustrative purposes only and are not to scale.

SMP at 30 June 2016

- Cost at completion was estimated at $1,139 million.
- Approved revenue of $758 million comprised the original contract value of $737 million and $21 million in approved variations.
- $280 million in unapproved revenue was also included based on the status of the negotiation of claims and other variations at the time the provision was raised.

CCPP at 30 June 2016

- Cost at completion was estimated at $1,320 million.
- Approved revenue of $720 million.
- Future settlements of claims on CCPP were not included.

UGL at 30 June 2016

- At the UGL Group level, the aggregate provision of $375 million reflected UGL's 50% share of the difference between the total estimated costs at completion and total revenue across the two projects, as well as the estimated UGL only management oversight costs required to oversee the projects.
- Approximately one third of the aggregate provision was attributable to SMP and two thirds to the CCPP Project.

Project progress from 30 June 2016 to 31 October 2016

Safety

Both the SMP and CCPP Projects have continued to deliver strong safety performance achieving Total Recordable Injury Frequency Rates well below the respective project targets. Pleasingly, this strong performance has not been impacted by the significant ramp up in resources on the SMP Project over the last few months to a workforce of 1,200 direct labour resources.

SMP Project

In August 2016, the UGL-Kentz joint venture settled the joint venture's claims on the SMP Project up to 31 May 2016. Part of this agreement included a commitment to significantly increase manning levels on the project to achieve greater weekly production rates. This manning up phase is now complete and with this, productivity levels are now improving and tracking above the levels forecast in the cost at completion estimate.

Progress is being maintained to the schedule requirements set once the client delay and disruption impacts have been taken into consideration.

Claims continue to be submitted to JKC for ongoing delays, disruption and variation work for the period since 31 May 2016.

CCPP Project

With key client supply requirements still to be confirmed the CH2M UGL joint venture has necessarily reforecast the likely project schedule and forecast cost to complete.

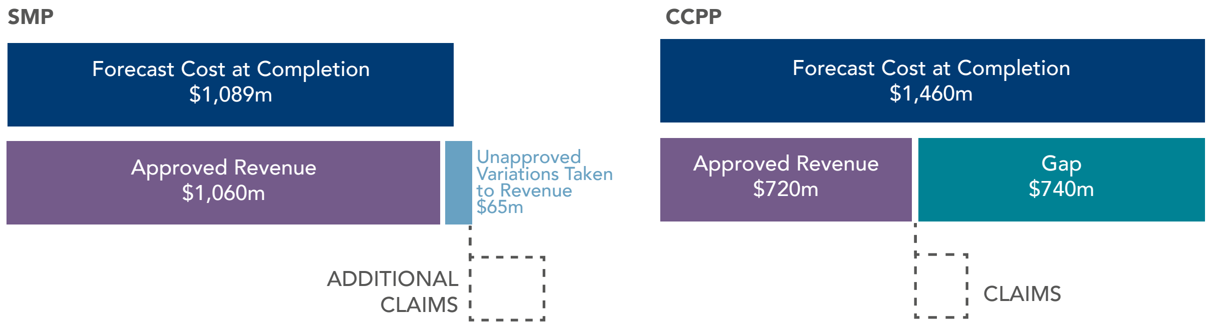
In line with this, and in order to mitigate the costs and to better align resource levels to the revised critical path of the new schedule, the joint venture has recently commenced a program to significantly reduce manning levels on site.

While productivity levels to date have trended behind the levels assumed, with manning levels now reduced this is expected to stabilise in line with the forecasts.

The consortium has recently achieved the "ready for gas" requirements and will now finalise its claims for resubmission in mid-December 2016. In the coming months, these claims and other previous claims will either genuinely move into negotiation and settlement discussions with JKC or will be placed into formal dispute.

Project financial position as at 31 October 2016

Given the progress and changes across the projects since June 2016 as outlined above, the components underlying the project provision have altered and are illustrated in the diagrams below reflecting their position as at 31 October 2016. Note that all values referred to below reflect 100% of the respective projects and UGL's interest is 50% of these values. They do not include the UGL only management oversight costs.



Project % completion: 60%	Project % completion: 79%

Note: Diagrams are for illustrative purposes only and are not to scale.

4. Overview of UGL and operational update

SMP at 31 October 2016

- Cost at completion is now estimated at $1,089 million.
- Approved revenue has now increased to $1,060 million and includes the settlement of all claims to 31 May 2016[2] as executed in August 2016 and other approved variations. Unapproved variations of $65 million are also included in the revenue figures, relating to site and field instructions, directed rectification works to JKC free-issued items and a preliminary allowance for delay and disruption.
- At a project level, the SMP Project contract has now improved to a slightly overall positive position.

CCPP at 31 October 2016

- Allowing for the prolonged completion schedule, cost at completion is now estimated at $1,460 million.
- Approved revenue remains at $720 million.
- Future settlements of claims on the CCPP Project are not included.

UGL at 31 October 2016

- At the UGL Group level, the aggregate provision of $375 million remains unchanged. The provision mix though has changed with the provision now fully attributable to the CCPP Project.
- The aggregate provision continues to include the estimated management costs required to oversee the two projects. For this reason the project positions do not align exactly to the overall UGL provision.
- Any approved or agreed claims above the limited variations included in the provision are either future potential upside or offer potential contingencies against any future increases to the forecast costs.

Cash flows

Recent reductions in manning levels on the CCPP Project to mitigate cost growth associated with further delays has resulted in an elongation in the profile of forecast net cash flows across the two projects.

The table below shows the revised expected phasing of the net cash flows and incorporates payment milestones associated with the commercial settlement in August 2016. Note the figures in the table below reflect UGL's share of forecast project net cash flows and include UGL only management oversight costs.

Key Assumptions in the cash flows

- Based on the October 2016 cost at completion forecasts as above;
- Based on the October 2016 approved revenue and $65 million (UGL component $32.5 million) of yet to be approved client variations on the SMP Project; and
- Does not allow for further project delays and cost increases that while possibly ultimately recoverable by claims would need to be cash flow funded by the joint venture partners in the first instance.

Ichthys Forecast Net Cash Flows ($m)

ACTUAL		FORECAST					
FY15	FY16	1H17	2H7	1H18	2H18	1H19	TOTAL
(9)	(183)	(103)	(82)	15	(12)	(1)	(375)

Other comments

The additional project provisioning raised by UGL in FY2016 allows for the uncertain timing of claims settlements and the potential movements in the estimated costs at completion as the projects progress through their delivery lifecycle. As demonstrated by the movement in the provision mix between 30 June 2016 to 31 October 2016, while there has been variability of the components underlying the provision, the impact of this variability has remained within the provision, in line with its original intent.

UGL believes the projects are stabilising within the current aggregate provision and while the various components underlying the provision may continue to change over the remaining delivery timelines, UGL believes that the level of provisioning is appropriate as at 31 October 2016.

While UGL believes the provision is appropriately sized, there are risks associated with the completion of both the SMP and CCPP Projects. For example, the projects may experience delay and disruption in excess of the levels assumed within the provision or productivity levels may not achieve the levels targeted which could cause the existing contract loss provision to be insufficient. Unforeseen issues may also arise through the testing and commissioning phases of the projects which could negatively impact the provision. To the extent this occurs it would negatively impact the assumed cash flows on the project and even if claims recovery against these issues were probable the cash flows would have to be funded by UGL in the first instance.

2 Including $35 million in incentive payments, which are conditional upon achieving agreed milestones.

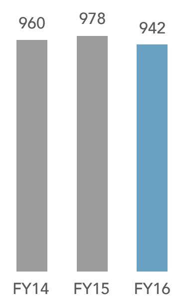
4.3 UGL's operating divisions (excluding Ichthys Projects)

(a) Rail and Defence

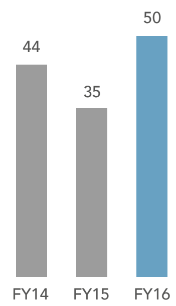
The Rail and Defence division operates across the passenger and freight rail markets in rolling stock supply, asset management and metropolitan network operation. The business is also one of the few Australian companies providing naval ship and landing craft maintenance services.

FY2016 performance

Revenue[1] ($m)



Underlying EBIT[2] ($m)



Notes:
1. Includes UGL's share of joint ventures
2. Comparative periods adjusted to exclude restructuring costs, impairments associated with the resources slow down, settlement of project claims, change in tender capitalisation policy and goodwill impairment

Rail and Defence revenue was $942 million and the business delivered improved profitability in FY2016. Sales secured in the year included a $594 million agreement with Pacific National for the supply and maintenance of locomotives and a contract extension for long term sustainment of the ANZAC Class Ships with the Commonwealth of Australia.

Order book

In August 2016, UGL was awarded the New Intercity Fleet contract to be delivered by RailConnect NSW, an unincorporated joint venture between UGL, Hyundai Rotem and Mitsubishi Electric Australia. Project scope is split between the joint venture parties with UGL's scope focussed on maintenance and asset management services which are expected to generate revenue around $570 million over the life of the contract commencing from 2019.

The Rail and Defence order book at 30 September 2016 stood at $3.1 billion.

Order book highlights

L3C UGL Unipart	Passenger car heavy maintenance and logistics management. Joint venture between UGL (70%) and Unipart plc (30%)
Pacific National	Maintenance of locomotive fleet
Warship Asset Management Agreement	Long term maintenance support for ANZAC Class fleet
New Intercity Fleet	Fleet maintenance and asset management services
Sydney Metro Northwest	Operations and maintenance of a new rapid transit rail services
Metro Trains Melbourne	Operations and maintenance of passenger rail franchise. Joint venture between UGL (20%), John Holland (20%) and MTR Corporation (60%)
Tangara Technology Upgrade	Technology upgrade of the Tangara fleet in Sydney

FY2017 outlook

Revenue for FY2017 is expected to decline slightly as the market for freight locomotive sales remains subdued with continued strength across freight and passenger maintenance and upgrade projects.

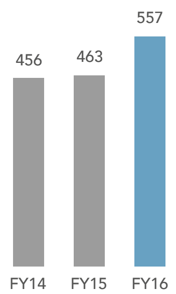
4. Overview of UGL and operational update

(b) Asset Services

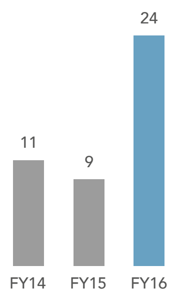
The Asset Services division provides services in maintenance, shutdowns and turnarounds across a number of sectors. The business is Australia's largest LNG maintenance services provider.

FY2016 performance

Revenue[1] ($m)



Underlying EBIT[2] ($m)



Notes:
1. Includes UGL's share of joint ventures
2. Comparative periods adjusted to exclude restructuring costs, impairments associated with the resources slow down, settlement of project claims, change in tender capitalisation policy and goodwill impairment

FY2016 revenue increased driven by contracts secured in FY2015. Consistent delivery across the Asset Services portfolio drove an improvement in EBIT margin with earnings more than double the prior year.

Asset Services consolidated its position as the leading provider of LNG maintenance services, securing a new two year contract to provide maintenance services at Woodside's Karratha Gas Plant Life Extension Program. A three year contract to provide maintenance services to Alcoa's Pinjarra alumina refinery was secured and the long standing contract to provide maintenance and turnaround services to the BP Kwinana refinery was extended for a further three years.

Order book

In the first quarter of FY2017, Asset Services secured a three year contract for maintenance of Alcoa's Wagerup refinery and extensions to existing Quadrant and Stanwell contracts.

At 30 September 2016 the order book was $1.0 billion.

Order book highlights

Stanwell	Maintenance and other works across Stanwell's coal, gas and hydro energy assets
BP	Operation and maintenance of BP's 17 fuel terminals across Australia in joint venture with BP
Chevron	Maintenance of Chevron's Western Australia assets
Alcoa	Maintenance services to Alcoa's Pinjarra and Wagerup alumina refineries
APLNG	Maintenance and shutdowns for APLNG's Curtis Island LNG facility
Santos GLNG	Maintenance and shutdowns for Santos GLNG's Curtis Island LNG facility

FY2017 outlook

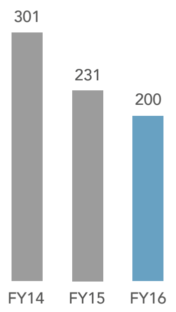
Revenue for FY2017 is expected to grow driven by contracts secured in FY2016 and increased shutdown and turnaround activity across a number of contracts, including the first shutdown cycle of the LNG plants maintained by UGL.

(c) Technology Systems

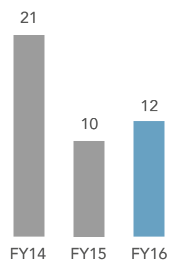
Technology Systems provides road and rail engineered tunnel systems, rail signalling and critical communication solutions across a range of sectors. The business partners with both civil infrastructure partners and global technology original equipment manufacturers.

FY2016 performance

Revenue[1] ($m)



Underlying EBIT[2] ($m)



Notes:
1. Includes UGL's share of joint ventures
2. Comparative periods adjusted to exclude restructuring costs, impairments associated with the resources slow down, settlement of project claims, change in tender capitalisation policy and goodwill impairment

Being a project based business, Technology Systems revenue is driven by the timing of the commencement and completion of large contracts. The decline in FY2016 revenue reflects the completion of the Regional Rail Link project in FY2015, with revenue from the design stage of Sydney Metro Northwest and Northconnex beginning to be recognised during FY2016.

EBIT reflected the recognition of profit margin on Sydney Metro Northwest commenced during the year.

During the year the business entered into a $476 million (consortium contract value) four year alliance agreement with the Lend Lease Bouygues Joint Venture for the NorthConnex motorway and secured a $55 million contract for design and installation of a radio communications system in the passenger rail sector.

Order book

The order book for Technology Systems stood at $602 million at 30 September 2016.

Order book highlights

Sydney Metro Northwest	Design and deliver the tunnel systems, rail signalling and overall control systems
NorthConnex	Mechanical, electrical, control, fire and communication systems for the NorthConnex motorway
Communications System	Design and installation of a radio communications system in the passenger rail sector
Digital Train Radio System	Maintenance and support of digital train radio system across electrified rail network

FY2017 outlook

Revenue in FY2017 is expected to increase as Sydney Metro Northwest and NorthConnex move from the design to delivery phase.

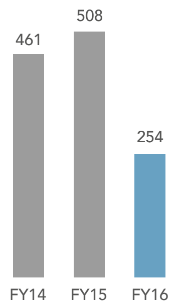
4. Overview of UGL and operational update

(d) Engineering and Construction

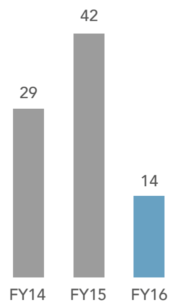
Engineering and Construction delivers complex projects from initial design through to procurement, construction and final commissioning. The business provides services and capabilities across a number of market sectors including power, water, renewable energy and resources.

FY2016 performance

Revenue[1] ($m)



Underlying EBIT[2] ($m)



Notes:
1. Includes UGL's share of joint ventures
2. Comparative periods adjusted to exclude restructuring costs, impairments associated with the resources slow down, settlement of project claims, change in tender capitalisation policy and goodwill impairment

Financial performance in FY2016 was impacted by the ongoing contraction in resources capital expenditure and reduced projects in the utilities sector. EBIT margins decreased as a result of restructuring costs incurred to better align overhead costs with the current size of the market opportunity.

The business secured a $32 million contract for development of the Wagga Wagga Water Treatment Plant and a three year contract for the maintenance of Mercury's hydro and geothermal stations.

The business has five projects completed or under construction in the renewables energy sector. UGL was also selected as the preferred contractor for the Kidston Solar project which is expected to commence later this year.

Order book

At 30 September 2016 the order book for Engineering and Construction was $316 million.

Order book highlights

Shoalhaven City Council	Upgrade of two water treatment plants and construction of interconnecting pipeline
Sydney Olympic Park Authority	Long term operations and maintenance of urban water reclamation scheme
Green Square Stormwater Drain Project	Construction of 2.4km storm water drain to address flooding issues within Green Square urban renewal area
Mercury	Maintenance of hydro and geothermal stations in New Zealand
Wagga Wagga Water Treatment Plant	Design and construction of 55 megalitre per day plant

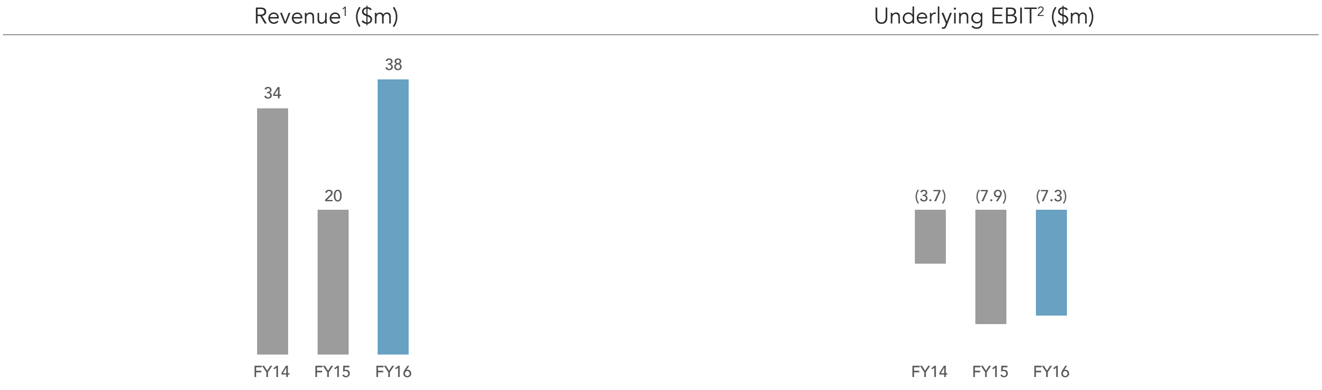
FY2017 outlook

Revenue in FY2017 is expected to increase through the delivery of work already secured, however market conditions remain tight across the sectors in which the business operates.

(e) Asia

UGL's South East Asia business has been built on a longstanding history in water infrastructure in Singapore and Malaysia. The business leverages local capability and draws on Australian expertise in specialised sectors including oil & gas and tunnel systems. Core areas of focus in South East Asia include engineering, procurement and construction for water treatment plants and specialised mechanical and electrical projects as well as oil and gas pipeline engineering, procurement and construction and maintenance.

FY2016 performance



Notes:
1. Includes UGL's share of joint ventures
2. Comparative periods adjusted to exclude restructuring costs, impairments associated with the resources slow down, settlement of project claims, change in tender capitalisation policy and goodwill impairment

Revenue increased in FY2016 following commencement of new projects in Singapore and Malaysia. The closure of operations in Hong Kong due to ongoing underperformance impacted the earnings result for the year due to restructure costs associated with this consolidation.

During the year, the business secured the Choa Chu Kang water upgrade, design and construction of a new solar panel module assembly building for First Solar and the installation and pre-commissioning of subsea pipelines for Hess.

Order book

The order book for Asia stands at $98 million at 30 September 2016.

Order book highlights

First Solar	Design and construction of new module assembly building
Klang Valley Mass Rapid Transit Line	Mechanical and electrical packages for new MRT line
Choa Chu Kang Water Works	Upgrade of existing water works featuring advanced water treatment technology
Hess Exploration and Production Malaysia	Installation and pre-commissioning of subsea pipelines in the North Malay Basin

FY2017 outlook

Revenue growth and a return to profitability are expected in FY2017 underpinned by projects secured in the later part of FY2016.

(f) Ichthys Projects

For information about the Ichthys Projects, please see section 4.2(b).

4. Overview of UGL and operational update

4.4 Financial information

(a) Introduction

This section 4.4 sets out a summary of key consolidated historical and forecast financial information of UGL and its subsidiaries, including the basis of preparation and presentation and UGL management's discussion and analysis of financial performance. The financial information in this section comprises:

- extracts of historical audited statements of financial performance for FY2015 and FY2016 (**Historical Financial Information**); and
- the Directors' pro forma forecast statement of financial performance for FY2017 (**Directors' Forecast**),

collectively the **Financial Information**.

The Financial Information should be read in conjunction with the other information contained within this Target's Statement.

The Directors' Forecast should be read in conjunction with the Directors' material best estimate assumptions described in section 4.4(e) and the risk factors in section 5.9 of this Target's Statement.

(b) Basis of preparation

The Financial Information in this section 4.4 has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards, other mandatory professional reporting requirements and UGL's adopted accounting policies.

The Financial Information in this section is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with Australian Accounting Standards and the Corporations Act. Shareholders should refer to the UGL audited financial statements for FY2015 and FY2016 for more detailed disclosures in relation to the historical financial performance, financial position and accounting policies of the UGL Group.

The Historical Financial Information presented in this section was derived from the audited UGL financial statements for FY2015 and FY2016. These reflect the financial performance of UGL and its subsidiaries.

The pro forma statements of financial performance are presented after adjusting for certain non-recurring items and include UGL's share of joint venture revenue and costs to allow greater comparability with the Directors' Forecast and better representation of underlying performance of the business. The adjustments made are outlined in Attachment 2 of this Target's Statement.

The Directors' Forecast was prepared by UGL management and adopted by the Board and represents your Directors' best estimate of UGL's forecast financial performance for FY2017. It is based on:

- the Directors' assessment of the present economic and operating conditions; and more specifically
- a number of material best estimate assumptions set out in section 4.4(e) of this Target's Statement as determined by the Directors.

The Directors consider that they have used reasonable care in preparing the Financial Information and consider the assumptions to be reasonable when taken as a whole. However, this information is not fact and there are margins of uncertainty surrounding any assumptions about future conditions and forecast performance. UGL Shareholders are cautioned not to place undue reliance on the Directors' Forecast.

Forecasts are by their nature subject to uncertainties and can be affected by unexpected events, many of which are outside the control of the Directors. Any variation to the assumptions on which the Directors' Forecast has been prepared could be materially positive or negative to actual financial performance. Therefore the Directors cannot guarantee the achievement of the Directors' Forecast.

The Directors' Forecast should not be regarded as a representation or warranty with respect to its accuracy or the accuracy of the best estimate assumptions or that UGL will achieve, or is likely to achieve, the particular results. UGL Shareholders are encouraged to read the material best estimate assumptions in section 4.4(e) in conjunction with the risk factors set out in section 5.9 of this Target's Statement.

The Directors' Forecast also takes no account of the adviser and other third party costs incurred to date and to be incurred by UGL in responding to CIMIC's Offer, on the basis that they are non-recurring and therefore not reflective of the underlying performance of UGL. The expected reported statutory results for UGL in FY2017 will include costs associated with responding to CIMIC's Offer.

(c) Pro forma statements of financial performance

$m	FY2015			FY2016			FY2017		
	Base Business	Ichthys	Total	Base Business	Ichthys	Total	Base Business	Ichthys	Total
Operating revenue	2,191.9	128.6	2,320.5	1,986.4	295.3	2,281.7	2,313.0	368.2	2,681.3
EBITDA	81.5	(174.9)	(93.4)	89.4	(196.9)	(107.5)	112.1	3.7	115.8
D&A	(34.0)	(0.1)	(34.1)	(23.9)	(3.1)	(27.0)	(20.5)	(3.7)	(24.2)
EBIT	47.5	(175.0)	(127.5)	65.5	(200.0)	(134.5)	91.6	–	91.6
EBIT margin	*2.2%*	*NM*	*(5.5%)*	*3.3%*	*NM*	*(5.9%)*	*4.0%*	*NM*	*3.4%*
Interest	(19.3)	–	(19.3)	(8.6)	0.4	(8.2)	(15.8)	–	(15.8)
Tax (expense)/benefit	(11.4)	52.5	41.1	(20.2)	59.9	39.6	(24.2)	–	(24.2)
Non-Controlling Interests	(3.9)	–	(3.9)	(3.1)	–	(3.1)	(3.0)	–	(3.0)
NPAT	12.9	(122.5)	(109.6)	33.5	(139.7)	(106.3)	48.5	–	48.5
Operating cashflow	note 1			115.0	(183.1)	(68.1)	103.1	(184.5)	(81.4)
Interest and finance costs paid				(9.0)	–	(9.0)	(19.4)	–	(19.4)
Capital expenditure				(12.9)	(3.1)	(16.0)	(22.1)	–	(22.1)
Free cashflow				93.1	(186.2)	(93.1)	61.6	(184.5)	(122.9)
Other cashflows (note 2)						(5.4)			(5.9)
Net cash/(debt)			33.7			(64.7)			(193.5)
Operating cashflow sensitivity									+/- 20
Expected net cash/(debt)									(174) to (214)
Deferred tax asset (losses/provision)			154.0			206.5			182.2

Notes:
1. FY2015 cash flow information is not provided as the year contained a partial contribution from DTZ and cash flows associated with the sale of the DTZ business. FY2015 therefore does not provide a meaningful comparison to FY2016 and FY2017.
2. Other cash flows are predominantly dividends paid to minority interests.

(d) Management's commentary on Historical Financial Information

FY2015

Revenue for FY2015 was $2,191.9 million across the base business generating an EBIT margin of 2.2%.

Interest of $19.3 million reflects higher borrowings prior to the sale of DTZ in November 2014 with a subsequent reduction in drawn debt facilities. UGL held net cash of $33.7 million at 30 June 2015.

A provision of $175 million was raised against the Ichthys CCPP Project during the year, impacting the overall result of a net loss after tax of $109.6 million.

During the year significant work was undertaken to reset the business and establish a clear path to a turnaround in performance. Costs associated with these events have been excluded from the summary of financial performance in order to provide a meaningful comparison with FY2016 and FY2017. The financial impact of these events was to increase the reported net loss after tax by $193.1 million. A breakdown of these costs are provided in Attachment 2.

4. Overview of UGL and operational update

FY2016

In FY2016 the base business of UGL delivered revenue of $1,986.4 million and an improved EBIT margin of 3.3% including a one-off $5.7 million foreign exchange gain.

The overall results for UGL were however impacted by the $200 million provision taken across the Ichthys Projects, resulting in a net loss after tax of $106.3 million.

Interest costs reduced significantly through improved cash management across the base business as well as debt reduction on the sale of DTZ in the prior year.

Tax expense of $20.2 million for the base business was driven by improved earnings and an effective tax rate of 35.5% reflecting the permanent effect of non-deductible costs.

The base business generated a strong operating cash flow with cash conversion of 143.5% of EBITDA, reflecting strong disciplines around cash management and working capital.

Operating cash outflows associated with the Ichthys Projects of $183.1 million however resulted in an increase in net debt to $64.7 million at 30 June 2016.

Deferred tax assets

UGL also notes that at 30 June 2016, the company had deferred tax assets of $206.5 million which included carried forward income tax losses and provisions of $165.2 million. UGL also expects the existing provisions on the Ichthys Projects to convert into tax deductions in FY2017 as the provisions are utilised. The existence of these tax losses will result in significant cash flow benefits to UGL in future years as the company will not be required to pay Australian income tax on its profits for many years.

(e) Management's commentary on Directors' Forecast

UGL forecasts improved financial performance in FY2017 with net profit after tax attributable to Shareholders of $48.5 million.

Key commentary and assumptions underlying this forecast are set out below:

- The FY2017 forecast comprises of three months of actuals and nine months of forecast results.
- In line with prior guidance UGL expects to achieve FY2017 revenue growth of around $300 million in the base business driven by growth in contracts already secured in asset maintenance and transport infrastructure.
  - Forecast revenue is an aggregation of secured contracts in the order book and identified pipeline opportunities that have been weighted to reflect the probability of successful contract award. Both secured contracts and weighted pipeline opportunities are then phased by year and month, as a basis for the calculation of secured and probable revenue.
  - UGL's forecast revenue is supported by the order book with 84% of FY2017 revenue currently secured through contracts in order book. Remaining unsecured revenue is expected to be delivered through the award of pipeline opportunities, increased scope in existing contracts and other ad-hoc project and maintenance work that should occur in the normal course of business.
- With the transformation of the business largely complete in FY2016, EBIT margins for the base business are expected to return to 4% in FY2017 as revenue volumes grow and improved profitability is delivered across the operating divisions.
  - Forecast EBIT comprises of expected gross margin less overheads incurred at the divisional and corporate level. Forecast gross margin is an aggregation of expected margin on contracts in the order book and target margin on identified pipeline opportunities, phased in accordance with revenue as above. Overhead costs are forecast using a bottom up approach in relation to employees and other costs including agreed assumptions regarding inflation and salary uplift, phased by month. UGL has targeted corporate overhead costs at 1.7% of revenue.
- EBIT is expected to be split around 35% / 65% between the first half and second half of FY2017 largely driven by the timing of profit recognition on major projects
- The Ichthys Projects are expected to generate revenue of $368.2 million at nil margin, having recognised project loss provisions in prior years. Forecast revenue is based on detailed project level projections regarding progress of project completion during the year.
- Depreciation and amortisation is forecast at $24.2 million and is estimated based on UGL's fixed and intangible asset registers adjusted for expected disposals and additions during FY2017.
- Interest costs are forecast to be $15.8 million including interest, refinancing costs and facility fees. Interest costs are determined based on the expected interest rates and the profile of drawn debt during the year. Significant changes in the timing and quantum of cashflows may also impact forecast interest costs.
- An effective tax rate of 32% is expected in FY2017 reflecting corporate tax rates adjusted for the permanent effect of some non-deductible costs.

Net debt at 30 June 2017 is expected to be in the range of $174 to $214 million based on the following assumptions:

- Operating cash flow in FY2017 for the Base Business is expected to be $103.1 million and assumes a cash conversion rate of 97% of EBITDA, after adjusting for FY2015 restructure costs expected to be paid during the year.
- Operating cash flow may be impacted by working capital movements such as the timing of receipts from customers that may occur across reporting periods. This may result in a favourable or unfavourable impact of +/-$20 million to the forecast FY2017 operating cash flow and therefore the closing net debt forecast.
- Expected cash outflows on the Ichthys projects in FY2017 are $184.5 million as set out in section 4.2(b).
- Interest and finance costs paid during the year are expected to be $19.4 million. Cash outflows exceed the $15.8 million expected interest cost in FY2017 due to refinancing costs that will be paid during the year but expensed in future years over the term of the new debt facilities.
- Capital expenditure is forecast at $22.1 million or approximately 1% of revenue and comprises of property plant and equipment and intangible assets including capitalised tender costs and software development.

4.5 Debt financing update

(a) Existing debt and bank guarantee facilities

UGL currently has certain bilateral unsecured debt facilities in place with Australia and New Zealand Banking Group Limited, ANZ National Bank Limited, National Australia Bank Limited, Westpac Banking Corporation, HSBC Bank Australia Limited and Standard Chartered Bank, Singapore Branch and certain related hedging arrangements in place (**Existing Bank Facilities**).

The aggregate facility limits under the Existing Bank Facilities are $895 million (comprising loan facilities of $322 million and bank guarantee/letter of credit facilities of $573 million). As at the Last Practical Date, the Existing Bank Facilities had been utilised to $633 million (comprising drawings of $279 million under loan facilities and $354 million under bank guarantee/letter of credit facilities).

The potential impact of the Offer on the Existing Bank Facilities is discussed in section 9.2(a).

(b) Existing surety bond facilities

UGL also currently has unsecured surety bond facilities in place with AAI Limited (**AAI**) and Swiss RE International SE (**Swiss RE**) (each a **Surety**). The surety bond facility with AAI is referred to here as the **AAI Surety Bond Facility** and the surety bond facility with Swiss RE is referred to here as the **Swiss RE Surety Bond Facility**.

The aggregate limits of the AAI Surety Bond Facility and the Swiss RE Surety Bond Facility are $86 million and $100 million respectively. These facilities will remain in place after the Debt Refinancing outlined in section 4.6 below

The potential impact of the Offer the Surety Bond Facilities is discussed in section 9.2(b).

(c) Debt metrics

Net debt as at 31 December 2016 is expected to be in the range of $150 million to $180 million, and is expected to increase to between $174 million and $214 million by 30 June 2017. The leverage ratio is expected to remain within 1.5 to 1.8 times EBITDA and the gearing ratio is expected to peak at approximately 33% at 30 June 2017.

UGL's Existing Bank Facilities need to be refinanced and supplemented, as additional headroom is likely to be needed by March 2017. This refinance, which is discussed in further detail in section 4.6, will extend the maturity profile of UGL's debt and bonding facilities and will, once unconditional and closed, ensure sufficient capacity and headroom continues to be available for UGL's current forecast commitments. When funding requirements are forecast to peak in the fourth quarter of FY2017, total headroom under the new facilities and general liquidity through overdraft/short term funding arrangements and freely available cash is expected to be $100 million to $150 million. While these liquidity levels provide adequate headroom above forecast commitments, they should be considered in relation to the risks outlined in section 5.9.

4. Overview of UGL and operational update

4.6 Debt refinancing

(a) Background

UGL noted in its Annual Report (released to the ASX on 22 August 2016) that the refinance and extension of UGL's debt facilities was well advanced and would ensure that UGL maintains operating headroom to support its debt requirements (including through to completion of the Ichthys Projects).

Further progress has been made on the refinance with a syndicated facility agreement (the **Syndicated Facility Agreement**) having been entered into by UGL on 4 November 2016 with various lenders for the provision of the senior secured facilities referred to in section 4.6(b) (the **New Facility**). Once drawn, this New Facility will replace in part the Existing Bank Facilities outlined in section 4.5(a) above.

It is provided in the Syndicated Facility Agreement that neither UGL nor any of its subsidiaries creates or agrees to create security over any of their respective assets but that it is a condition precedent to drawdown under the Syndicated Facility Agreement that certain security over the assets of UGL and its subsidiaries be provided.

As a consequence of the Offer, financial close (which will involve, among other things, draw down and the granting of security) for the New Facility will not occur before 28 November 2016 (which is after the currently scheduled closing date of the Offer of 25 November 2016 – CIMIC has the right to extend this date). If financial close for the New Facility occurs and UGL becomes a subsidiary of CIMIC (or CIMIC acquires control of UGL), this will constitute a "Review Event" under the New Facility and UGL may need to renegotiate the New Facility or explore alternative finance facilities (which may include high yield bonds).

There is a risk that alternative finance facilities may not be available on commercially acceptable terms due to uncertainty created by the Offer which may lead UGL to consider an equity raising in certain circumstances.

(b) New $605 million senior secured debt and bank guarantee facility

On 4 November 2016, UGL entered into the Syndicated Facility Agreement with Westpac Banking Corporation, The Hong Kong and Shanghai Banking Corporation Limited, Sydney Branch and National Australia Bank Limited as Arrangers and various lenders for the provision of the New Facility.

The New Facility, subject to its terms (including the Review Event referred to in section 4.6(a)), extends the maturity profile of UGL's debt and bonding facilities and ensures sufficient capacity and headroom continues to be available for its forecast commitments, and provides for the following facilities;

- an $150 million two year senior secured cash advance facility, which is to be used for the working capital and general corporate purposes of the UGL Group from time to time;
- an $225 million three year senior secured cash advance facility, which is to be used for the working capital and general corporate purposes of the UGL Group from time to time;
- a $230 million three year senior secured bank guarantee and bonding facility, which is to be used for the issuance of bank guarantees, performance bonds and letters of credit.

The Syndicated Facility Agreement provides that the New Facility will be available to UGL and its Subsidiaries on the terms of that Syndicated Facility Agreement and related finance documents provided that certain initial conditions precedent to drawdown and ongoing conditions to availability of the New Facility are met. The initial conditions precedent to draw down under the New Facility include:

- that UGL and its Subsidiaries provide security over their respective assets (subject to certain exclusions) to a security trustee for various beneficiaries including the lenders under the New Facility in accordance with certain agreed security principles;
- other conditions precedent, including provision of usual corporate authorisations; completion of 'know your customer' checks; evidence of repayment of other financing arrangements and the absence of any actual or potential event of default or Review Event (see below) or other regulatory impediments.

As noted above, it is expected that financial close and initial drawdown on the New Facility will occur after 28 November 2016 if the various conditions precedent to drawdown are satisfied.

Under the New Facility a 'Review Event' will occur if there is a change in the shareholding of ordinary shares or other shares in UGL or any other transaction or arrangement is effected such that:

- UGL becomes a subsidiary (as that term is defined in the Corporations Act) of a company or other person; or
- there is a change in control (for the purposes of section 50AA of the Corporations Act) in respect of UGL.

The lenders under the New Facility will not be obliged to provide the financing under the New Facility if a Review Event has occurred.

If a Review Event occurs after funding has occurred under the New Facility, a mandatory 30 day consultation period following which a lender may require repayment and cancellation of its facilities on 90 days' notice.

(c) Bilateral facilities

In addition to the core syndicated facilities, negotiations to extend a range of existing bilateral bank guarantee, overdraft and other transactional facilities with an aggregate value of $65 million are well progressed. The bilateral facilities will move to the secured platform and will be subject to annual review. Extension of these bilateral facilities is expected to be agreed by 18 November 2016, with drawdown to occur simultaneously with the syndicated facilities.

4.7 UGL historical financials

UGL's financial information has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board and the Corporations Act. The consolidated financial statements of the UGL Group comply with International Financial Reporting Standards adopted by the International Accounting Standards Board.

The financial information presented in the tables in Attachment 1 does not represent complete financial statements and should therefore be read in conjunction with the financial statements for the respective periods, including the description of accounting policies contained in those financial statements and the notes to those financial statements.

UGL Shareholders may view complete copies of the audited consolidated statements of UGL for the financial years ended 30 June 2015 and 30 June 2016 on the ASX website at www.asx.com.au or on the UGL website at www.ugllimited.com.

5

IMPORTANT MATTERS FOR UGL SHAREHOLDERS TO CONSIDER

5. Important matters for UGL Shareholders to consider

5.1 The CIMIC Offer

CIMIC lodged its Bidder's Statement on 10 October 2016. A summary of the Offer is contained in section 6 of this Target's Statement.

The Offer is open for acceptance until 7.00pm (AEDT) on 25 November 2016, unless it is extended or withdrawn. Sections 6.5 and 6.6 of this Target's Statement describe the circumstances in which CIMIC can extend or withdraw its Offer.

5.2 Independent Expert's Report

This Target's Statement includes, in Attachment 3, a copy of a report by Grant Samuel (an independent expert not associated with either UGL or CIMIC) stating whether, in its opinion, the Offer is fair and reasonable and giving reasons for forming that opinion. You should read the report in full.

5.3 Your choices as a UGL Shareholder

The recommendation of your UGL Directors is set out at the front of this Target's Statement. However, as a UGL Shareholder you have three choices currently available to you:

(a) Accept the Offer

UGL Shareholders may elect to accept the Offer. Details of the consideration that will be received by UGL Shareholders who accept the Offer are set out in section 6.1 of this Target's Statement and in the Bidder's Statement.

UGL Shareholders who accept the Offer may be liable for CGT on the disposal of their UGL Shares (see section 8 of this Target's Statement). However, they will not incur any brokerage charge.

The Bidder's Statement contains details of how to accept the Offer in section 9.4.

(b) Sell your UGL Shares on market

During a takeover, shareholders of a target company who have not already accepted the bidder's offer can still sell their shares on market for cash.

The latest price for UGL Shares may be obtained from the ASX website www.asx.com.au.

UGL Shareholders who sell their UGL Shares on market may be liable for CGT on the sale of their UGL Shares (see section 8 of this Target's Statement) and may incur a brokerage charge.

UGL Shareholders who wish to sell their UGL Shares on market should contact their broker for information on how to effect that sale.

(c) Do not accept the Offer or sell their UGL Shares on market

UGL Shareholders who do not wish to accept the Offer or sell their UGL Shares on market can do nothing.

UGL Shareholders should note that if CIMIC and its associates have a relevant interest in at least 90% of the UGL Shares during or at the end of the Offer Period, CIMIC will be entitled to compulsorily acquire the UGL Shares that it does not already own (see section 6.12 of this Target's Statement for further details).

5.4 Minority ownership consequences

If CIMIC acquires a relevant interest in more than 50% but less than 90% of the UGL Shares then, assuming the condition to the Offer referred to in section 6.2 of this Target's Statement is fulfilled or freed, CIMIC will acquire a majority shareholding in UGL.

Accordingly, UGL Shareholders who do not accept the Offer or sell their UGL Shares on market will become minority shareholders in UGL. This has a number of possible implications, including:

- **CIMIC will be in a position to cast the majority of votes at a general meeting**

  CIMIC will be in a position to cast the majority of votes at a general meeting of UGL Shareholders. This will enable it to control the composition of UGL's board of directors and through them (but subject to the discharge of their directors' duties) senior management, UGL's dividend policy and the strategic direction of the businesses of UGL and its subsidiaries.

  CIMIC has stated in its Bidder's Statement it intends to conduct a strategic review of the UGL businesses if following the close of the Offer it is the holder of 50% or more of all UGL Shares. See section 4.3(a)(i) of the Bidder's Statement for further information in this regard.

- **Potential UGL Board and governance changes**

  CIMIC has also stated in its Bidder's Statement that it intends to reconstitute the UGL Board so that it is appropriately sized and composed having regard to the size and scale of UGL's business and CIMIC's shareholding. See section 4.3(b) of the Bidder's Statement for further information in this regard.

  The future governance framework of UGL under the management of CIMIC may also change from UGL's current governance framework.

5. Important matters for UGL Shareholders to consider

- **The UGL share price may fall immediately following the end of the Offer Period**

  The UGL share price may fall immediately following the end of the Offer Period (see section 5.6 of this Target's Statement).

- **Liquidity of UGL Shares will be lower than at present**

  Liquidity of UGL Shares will be lower than at present, and depending on the level of shares acquired by CIMIC, there is a risk that UGL could be fully or partially removed from certain S&P/ASX market indices due to lack of free float and/or liquidity.

- **UGL may be removed from the official list of the ASX**

  If the number of UGL Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing then CIMIC has indicated in the Bidder's Statement that it will seek to have UGL removed from the official list of the ASX. If this occurs, UGL Shares will not be able to be bought or sold on the ASX. See section 5.7 of this Target's Statement for further information.

- **Change of control consequences**

  A number of UGL's material contracts have provisions which may be triggered by a change of control of UGL.

  See sections 9.1 and 9.2 of this Target's Statement for further information in this regard.

- **Dividend policy under the management of CIMIC may vary**

  Future UGL dividend policy under the management of CIMIC may vary from current UGL dividend policy (see section 5.5 of this Target's Statement for further detail in this regard).

- **The capital structure of UGL may change**

  CIMIC's proposed review of UGL's dividend and capital management policies may result in changes to the existing capital structure of UGL, including a potential equity raising.

- **Potential strategic direction changes**

  UGL's business mix may change under the management of CIMIC as CIMIC has indicated in the Bidder's Statement that it intends to conduct a strategic review of UGL's businesses and may determine that some assets should be divested on completion of the review.

- **If CIMIC acquires 75% or more of the UGL Shares it will be able to pass a special resolution**

  If CIMIC acquires 75% or more of the UGL Shares it will be able to pass a special resolution of UGL. This will enable CIMIC to, among other things, change UGL's constitution.

5.5 Dividend considerations for UGL Shareholders

CIMIC has stated that in the event it acquires a relevant interest in 50% or more, but less than 90%, of the UGL Shares, it intends to conduct a strategic review of the UGL businesses and, as it develops its understanding of UGL following the close of the Offer (including as part of that strategic review) it may form views on the most effective and efficient capital structure for UGL, including the payment of dividends by UGL.

CIMIC has stated that its view on payment of dividends by UGL may be different to those of the current UGL Board.

CIMIC has stated in its Bidder's Statement that no determination has been made by it regarding UGL's dividend and capital management policies and that it is not practical to make any such determination until after the conclusion of the Offer. Additionally, CIMIC has noted in its Bidder's Statement that it does not have access to the detailed information concerning UGL that would be required to make a determination regarding UGL's dividend and capital management policies.

See section 4.3 of the Bidder's Statement for further information in relation to the UGL dividend policy if CIMIC acquires more than 50% of the UGL Shares.

5.6 UGL share price absent the Offer

While there are many factors that influence the market price of UGL Shares, the Majority Directors anticipate that, immediately following the close of the Offer if no superior proposal emerges, the market price of UGL Shares may fall if CIMIC's Offer fails, if CIMIC acquires more than 50% (but less than 90%) of the UGL Shares or if the takeover is otherwise unsuccessful.

5.7 ASX delisting

CIMIC has stated in its Bidder's Statement that it may also seek to procure the removal of UGL from the official list of ASX, which will depend on whether it secures control of UGL, as well as the spread and volume of UGL Shareholders remaining at the conclusion of the Offer.

Any decision by UGL to apply to ASX for removal from the official list would need to be made by the UGL Board, not CIMIC. The UGL Board, including any of CIMIC's nominees on the UGL Board, could only decide to seek a delisting if it is in the interest of UGL to do so at the relevant time.

ASX Guidance Note 33 sets out ASX's policy in relation to a request for removal from the official list of ASX. ASX has stated that it is not required to act on an entity's request for removal from the official list and a decision to act upon a request for delisting is usually subject to the satisfaction of certain conditions.

In ASX Guidance Note 33, ASX also states that it will use its discretion to ensure that the removal of an entity from the official list is being sought for acceptable reasons. For example, a request to remove an entity from ASX that is primarily or solely to deny minority shareholders a market for their securities, in order to coerce them into accepting an offer from a controlling shareholder to buy out their securities, would be an unacceptable reason for requesting removal from the official list.

Whilst ASX does not prescribe a minimum shareholding that the bidder must have, or a maximum number of remaining shareholders, before it will allow a delisting to occur, the ASX's published guidance states that it will likely require shareholder approval for the proposed delisting unless (most relevantly):

- the bidder and its related bodies corporate own or control at least 75% of the entity's ordinary securities;
- excluding the bidder and its related bodies corporate, the number of holders of ordinary securities having holdings with a value of at least $500 is fewer than 150;
- the takeover bid remains open for at least two weeks following the bidder and its related bodies corporate having attained ownership or control of at least 75% of the entity's ordinary securities; and
- the entity applies for removal from the official list no later than one month after the close of the takeover bid.

5.8 Ownership consequences if CIMIC acquires less than 50% of the UGL Shares

If CIMIC acquires less than 50% of the UGL Shares as a result of the Offer, and the condition referred to in section 6.2 of this Target's Statement is fulfilled or freed, it has stated that it intends to seek representation on the UGL Board commensurate with its shareholding with a view to gaining a more detailed understanding of the corporate structure, strategies, governance, assets, businesses, personnel and operations of UGL.

If CIMIC's nominees are appointed to the UGL Board, it may seek to influence the future governance framework of UGL, UGL's dividend policy and capital structure, the composition of management and the strategic direction of the businesses of UGL and its subsidiaries.

CIMIC has further stated in the Bidder's Statement that it intends to reassess its position with respect to UGL in light of the outcome of the Offer and CIMIC's position at that time, which may include seeking the implementation of certain of its intentions as outlined in section 4.3 of the Bidder's Statement, including acquiring further UGL Shares in any manner permitted by the Corporations Act, including by making creeping acquisitions (as permitted under section 611, item 9 of the Corporations Act), or divesting some or all of its shareholding. Any such implementation of CIMIC's intentions would be subject to the Corporations Act and may rely on the cooperation of other UGL Shareholders or directors of UGL who have not been appointed by CIMIC (which is uncertain).

Even if CIMIC acquires less than 50% of the UGL Shares:

- UGL's share price may fall immediately following the end of the Offer Period; and
- the liquidity of UGL Shares may be lower than at present.

5.9 Risk factors

(a) Introduction

There are risks which are specific to the UGL Group and other risks which apply to investments generally which may materially and adversely affect the future operating and financial performance (and financial position) of the UGL Group, the value of UGL Shares and UGL's industry standing.

This section 5.9 outlines various key risks which may affect the future operating and financial performance of UGL, the price and value of UGL Shares and UGL's industry standing. The risks described in this section are not the only risks that UGL faces and should not be taken as an exhaustive list of the risk factors to which UGL and UGL Shareholders are exposed. Additional risks and uncertainties that UGL is unaware of, or that UGL currently considers to be immaterial, may also become important factors that adversely affect UGL's operating and financial performance and the price and value of UGL Shares.

Managing risk plays an active and visible role within UGL supported by processes and structures to effectively manage opportunities and adverse effects within its operating environment, but some risks are outside the control of UGL and cannot be mitigated.

One or more or a combination of these risks could materially and adversely impact the UGL Group's businesses, including its operating and financial performance, industry standing and the price and value of UGL Shares.

If you do not accept the Offer and continue to hold UGL Shares, your investment in UGL will be subject to these and other risks.

5. Important matters for UGL Shareholders to consider

(b) Construction activity risk and risk of delays

UGL's ability to achieve sustainable shareholder returns is influenced by its ability to deliver significant and/or strategically important projects to its customers' satisfaction (including in line with agreed project costs and timetables).

However, UGL's ability to complete projects on time, on budget and otherwise in accordance with its contractual requirements may be impacted or delayed due to a variety of events, natural disasters, adverse weather conditions, labour strikes, lockouts or other industrial disruptions, a disruption of supplies or other events.

UGL's contracts are often large and complex. Failure by UGL or its partners to perform as required under its contracts, or other events that result in non-performance or delays, may lead to additional cost and liabilities, which has the potential to negatively impact UGL's business, including its operating and financial performance, industry standing and the price and value of UGL Shares.

See section 4.2(b) for further information in relation to such issues which have arisen in relation to the Ichthys Project.

(c) Cyclical fluctuations and resulting demand risk

The markets for UGL's services are exposed to both:

- Governments' capacity to invest in infrastructure and other projects with consequent changes in government spending and major project delays or cancellations (amongst others), which may decrease the demand for UGL's services; and
- unpredictable and cyclical commodity prices, fluctuations of mining construction, the economic activity of its customers and general economic conditions affecting customers' ability to fund capital and operational expenditure.

These cycles are determined by domestic and global factors outside the control of UGL and have the potential to impact its operating and financial performance (including the shape and size of its future order book and the potential profit margins at which any future work is won) and the price and value of UGL Shares.

(d) Reputation risk

UGL relies on the strength of its reputation to help win and retain work, attract and retain employees, secure lines of credit and gain access to capital. Any damage to UGL's reputation and business relationships could have an adverse effect on its business, including its operating and financial performance, industry standing and the price and value of UGL Shares.

(e) Customers, joint ventures and counterparties

Certain of UGL's operations are subject to key customers, joint venture partners and other counterparties continuing to perform and manage their obligations to an acceptable standard. The failure to perform or mismanagement by such a counterparty may adversely affect UGL particularly if the relationship with the counterparty deteriorates.

Additionally, if the schedule for performance of work by UGL is delayed or postponed, whether or not it is due to the fault of a party or involves a breach of contract, it will likely result in a delay in receipt of revenue in consideration for such work. Due to the delayed receipt of revenue, financial forecasts and other expectations and projections may not be met as such revenue is rescheduled to be received in later financial reporting periods. See sections 4.2 and 4.3 for further information in relation to the status of certain of UGL's operations.

Also, UGL has given parent company guarantees in respect of certain of its contracts. If there is a change of control of UGL, a number of these guarantees may need to be replaced. There is no guarantee that any third party that acquires control of UGL (such as CIMIC) would be willing to put in place replacement guarantees (from its ultimate holding company or otherwise). The failure to replace a parent company guarantee could have an adverse effect on UGL's business, including its operating and financial performance, industry standing and the price and value of UGL Shares.

Also, a number of UGL's material contracts have provisions which may be triggered by a change of control of UGL or which allow a counterparty to terminate for its convenience. See sections 9.1 and 9.2 of this Target's Statement for further information in this regard.

(f) Competition, contract and payment risk

UGL operates in a competitive environment. An increase in competition or a change in the behaviour of competitors could result in contract price reductions, reduced operating margins and/or loss of market share.

UGL's businesses rely on a number of long-term contracts and business relationships. There is a risk that if any of UGL's key customers, suppliers or partners terminate their contracts with UGL for any reason, do not renew those contracts, or renew those contracts on less favourable terms, it may have an adverse effect on UGL's business, including its operating and financial performance, industry standing and the price and value of UGL Shares.

There is a risk that UGL's customers may be late or default on their contractual payment obligations. This can adversely affect UGL's available financial headroom and UGL's financial performance and position.

(g) Interest rates and refinancing
UGL funds part of its operations with debt and relies on continued profitability and business cash flows to service the interest on such debt. Further, UGL relies on available cash or equity or debt funding to refinance its debt.

UGL has executed agreements to refinance certain parts of its debt facilities as referred to in section 4.6 of this Target's Statement. This type of refinancing activity will continue to occur in the ordinary course of business and UGL has policies in place to reduce the risk that UGL will not be able to refinance this debt on commercially acceptable terms.

UGL's ability to refinance this debt will depend on a number of factors including general economic, political, capital and credit market conditions.

If UGL is unable to raise additional funds as required, or refinance existing borrowings from time to time, on commercially acceptable terms, this could adversely affect its financial position and financial performance, its ability to remain within targeted levels of gearing.

Existing and new financing agreements include change of control provisions, as mentioned in sections 4.6 and 9.2 of this Target's Statement.

(h) Capital raising
UGL's ability to raise equity capital is dependent on the prevailing market conditions at the time, and upon the availability of significant amounts of equity financing to UGL.

If additional capital is raised by an issue of UGL Shares, this will likely have the effect of diluting the interests of UGL Shareholders who do not participate in the capital raising.

UGL's failure to raise capital if and when needed could delay or suspend UGL's business strategy and could have a material adverse effect on UGL's activities, including its operating and financial performance, industry standing and the price and value of UGL Shares.

(i) Fixed price and schedule of rates contracts
Fixed price or schedule of rates contracts are common in UGL's industries. Such contracts may be loss making where the cost of discharging UGL's obligations under the contract exceeds the fixed price or rates which UGL has agreed to be paid for them. This could be caused, for instance, when the originally planned dates for completion under a contract are not achieved and UGL is not recompensed under the contract for the cost it incurs as a result of the additional time.

(j) Ongoing and potential disputes
UGL is subject to the usual business risk that it may in the ordinary course of business be or become involved in disputes. Any dispute could be costly and damaging to UGL's reputation and business relationships, which could have an adverse effect on it, including its operating and financial performance, industry standing and the price and value of UGL Shares.

See section 9.3 of this Target's Statement for further information in relation to some of the existing disputes which UGL is currently involved in or which it is aware may eventuate.

(k) General market risks
The price and value of UGL Shares will be influenced by a number of factors that are common to most listed investments including the Australian and international economic outlook, movements in the general level of prices on international and local stock markets, recommendations by brokers and analysts changes in government, fiscal, monetary and regulatory policies and global geo-political events.

Specifically, a continuation or further deterioration of the current cyclical downturn in certain commodity prices could impact the profitability of some of UGL's clients, which may in turn impact their demand for UGL's services.

(l) Regulatory risk
UGL's business is affected by a range of industry-specific and general legal and regulatory controls. UGL operates in a number of market segments, such as infrastructure, which is subject to discretion by government departments and ministers or which are strictly regulated by legislation, such as rail, transport and communication systems, oil and gas, power, water, resources, renewable energy and defence. Changes in these types of regulations (including major shift in regulatory policy) can have an adverse affect on UGL's business, including its operating and financial performance, industry standing and the price and value of UGL Shares.

(m) Foreign operations and sovereign risk
UGL operates in countries outside of Australia, including countries in South East Asia and the Pacific. Political, economic or social unrest in these countries (including in countries where there are outbreaks of civil war, periods of civil unrest or acts of terrorism) could impact UGL's ability to effectively deliver project and operations services. This could in turn affect UGL's operating and financial performance. There is also a risk that the actions of a government, or other unforeseen events in any of these countries, may adversely affect UGL.

5. Important matters for UGL Shareholders to consider

Further, the operating and financial performance of each of UGL's foreign operations may be adversely impacted by current or future fiscal or regulatory regimes, local laws and regulations or changes to current political, judicial or administrative policies or conditions in those geographies.

(n) Sovereign risk in Australia

Changes of government at a State and Federal level can result in changes in priorities, initiatives and directions, resulting in the cancellation of major projects or categories of projects, which can have an adverse effect on UGL's business, including its operating and financial performance, industry standing and the price and value of UGL Shares.

(o) Domestic and global economic conditions

Changes in the domestic and global economic conditions and outlook may impact the operating and financial performance of UGL. A downturn in domestic or global economic conditions could adversely affect UGL's business, including its operating and financial performance and the price and value of UGL Shares.

(p) Permits, licences, accreditations and certifications

UGL is required to hold certain operating permits, licences, accreditations and certifications. Loss of, failure to comply with or failure to hold such required permits, licences, accreditations and certifications may directly impact UGL's ability to fulfil its contractual obligations and adversely affect its business, including its operating and financial performance, industry standing and the price and value of UGL Shares.

(q) Environmental regulations

UGL and the industries in which it operates are subject to a broad range of environmental laws, regulations and standards (including certain licensing requirements). This results in compliance costs and could expose UGL to legal liabilities.

(r) Personnel and labour shortages

UGL's growth and profitability may be limited by the loss of key personnel, the inability to attract suitably qualified personnel or increases in compensation costs associated with attracting and retaining personnel.

UGL is dependent on the availability of suitably skilled labour to provide its services and therefore, labour shortages present a risk to its ongoing operating and financial performance, industry standing and the price and value of UGL Shares.

(s) Health, safety and security

While UGL maintains a focus on health and safety, UGL employees work across many countries and undertake work in environments where risk of personal injury is present. If UGL's safety performance deteriorated or there was a serious incident on one of its projects, UGL may suffer reputational damage impacting its ability to win work and retain employees. In addition, if UGL fails to comply with the necessary occupational health and safety legislative requirements across the jurisdictions in which it operates, it could result in fines, penalties and compensation for damages. In addition, a major health scare in jurisdictions in which UGL operates could adversely affect UGL activities in that jurisdiction, thereby negatively impacting UGL's business, including its operating and financial performance, industry standing and the price and value of UGL Shares.

On 30 August 2016, an incident occurred at Glencore's Newlands Coal mining operation in the Bowen Basin, which tragically resulted in the loss of a valued employee of UGL. UGL is presently assisting the regulator with its investigations into this incident.

(t) Information technology

UGL's business is dependent on the efficient operation of information technology systems. Failure of such systems could result in business interruption, the loss of clients, damaged reputation and a weakening of its competitive position, particularly where substitute technology systems are not available on acceptable terms. Additionally, the use by competitors of alternative, technologies may pose a threat to UGL's business, including its operating and financial performance, industry standing and the price and value of UGL Shares.

(u) Cyber security

Similar to other comparable organisations UGL and its Information Communications Technology (**ICT**) systems are vulnerable to cyber security attack. A significant and successful attack could lead to an inability by UGL to continue its normal ICT operations and delivery of associated services to its employees, suppliers and customers. There could be a serious and permanent loss or theft of data leading to an adverse effect on UGL's business, including its operating and financial performance, industry standing and the price and value of UGL Shares. Whilst UGL has undertaken significant work with external professional parties to access and manage its cyber security risks and vulnerabilities and is of the view that it presently has adequate processes, procedures and technology in place to protect its key ICT assets and services and will continue its program of works to continually enhance this position, the risk cannot be totally excluded or mitigated.

(v) Contingent liabilities

UGL may be required to fund payments under bank guarantees, bonds and letters of credit issued in relation to projects and contracts. If advance payment guarantees, bank guarantees, bonds and letters of credit ceased to be available on commercially acceptable terms this could adversely affect UGL's operating and financial performance and industry standing and the price and value of UGL Shares.

In addition, UGL is, from time to time, required to give advance payment guarantees, performance guarantees and indemnities. There is a risk that advance payment guarantees, performance guarantees and indemnities are called upon. This could have an adverse effect on UGL's business, including its operating and financial performance, industry standing and the price and value of UGL Shares.

(w) Insurance

The availability of insurance at an appropriate price and terms is not guaranteed. It is possible that the occurrence of an event may not be fully covered, or covered at all, by insurance. Such developments may adversely affect UGL's business, including its operating and financial performance, industry standing and the price and value of UGL Shares.

(x) Exchange rates

UGL operates internationally and faces foreign exchange rate risks associated with foreign currency-denominated debt, input costs and offshore earnings. Changes in such matters can adversely affect UGL's business, including its operating and financial performance and the price and value of UGL Shares.

(y) Changes in accounting standards

Accounting standards may change. This may affect the reported financial performance of UGL and its financial position from time to time.

(z) Changes in taxation laws

Future changes in Australian taxation law, including changes in interpretation or application of the law by the courts or taxation authorities in Australia, may affect the taxation treatment of an investment in UGL Shares or the holding and disposal of those shares. Further, changes in tax law, or changes in the way tax law is expected to be interpreted, in the various jurisdictions in which UGL operates (including Australia), may impact the future tax liabilities of UGL and the ability to repatriate revenue to Australia, and hence UGL's financial performance and the price and value of UGL Shares.

5.10 Taxation consequences of accepting the Offer

The taxation consequences of accepting the Offer depend on a number of factors and will vary depending on your particular circumstances. A general outline of the Australian taxation considerations of accepting the Offer are set out in section 8 of this Target's Statement.

You should carefully read section 8 of this Target's Statement and consider the taxation consequences of accepting the Offer. The outline provided in section 8 of this Target's Statement is of a general nature only and you should seek your own specific professional advice as to the taxation implications applicable to your circumstances.

6

KEY FEATURES OF CIMIC'S OFFER

6. Key features of CIMIC's Offer

6.1 Consideration payable to UGL Shareholders who accept the Offer

The consideration being offered by CIMIC is $3.15 cash for each UGL Share it does not already own.

6.2 Condition to the Offer

CIMIC's Offer is conditional on there being no "prescribed occurrences" during the Condition Period. The "prescribed occurrences" are listed in section 9.8 of the Bidder's Statement and include the following events:

(a) UGL converts all or any of its shares into a larger or smaller number of shares;

(b) UGL or a subsidiary of UGL resolves to reduce its share capital in any way;

(c) UGL or a subsidiary of UGL:

  (1) enters into a buy-back agreement; or

  (2) resolves to approve the terms of a buy-back agreement under section 257C(1) or 257D(1) of the Corporations Act;

(d) UGL or a subsidiary of UGL issues shares or grants an option over its shares, or agrees to make such an issue or grant such an option;

(e) UGL or a subsidiary of UGL issues, or agrees to issue, convertible notes;

(f) UGL or a subsidiary of UGL disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;

(g) UGL or a subsidiary of UGL grants, or agrees to grant, a security interest in the whole, or a substantial part, of its business or property;

(h) UGL or a subsidiary of UGL resolves to be wound up;

(i) a liquidator or provisional liquidator of UGL or of a subsidiary of UGL is appointed;

(j) a court makes an order for the winding up of UGL or of a subsidiary of UGL;

(k) an administrator of UGL, or of a subsidiary of UGL, is appointed under section 436A, 436B or 436C of the Corporations Act;

(l) UGL or a subsidiary of UGL executes a deed of company arrangement; or

(m) a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of UGL or of a subsidiary of UGL.

CIMIC has confirmed that, if UGL issues UGL Shares on or after the Register Date and before the end of the Offer Period as a result of the vesting of any of the UGL Performance Rights or UGL Rights (that were on issue at the Register Date), CIMIC may not regard such issuance as non-fulfilment of the condition in section 9.8(a)(i)(D) of its Bidder's Statement (being the condition summarised in section 6.2(d) of this Target's Statement).

6.3 Notice of Status of Condition

Section 9.8(f) of the Bidder's Statement indicates that CIMIC will give a Notice of Status of Condition to the ASX and UGL on 14 November 2016.

CIMIC is required to set out in its Notice of Status of Condition:

- whether the Offer is free of the condition referred to in section 6.2 of this Target's Statement;
- whether, so far as CIMIC knows, the condition referred to in section 6.2 of this Target's Statement has been fulfilled; and
- CIMIC's voting power in UGL.

If the Offer Period is extended by a period before the time by which the Notice of Status of Condition is to be given, the date for giving the Notice of Status of Condition will be taken to be postponed for the same period. In the event of such an extension, CIMIC is required, as soon as practicable after the extension, to give a notice to the ASX and UGL that states the new date for the giving of the Notice of Status of Condition.

If the condition is fulfilled (so that the Offer becomes free of that condition) during the Offer Period but before the date on which the Notice of Status of Condition is required to be given, CIMIC must, as soon as practicable, give the ASX and UGL a notice that states that the condition has been fulfilled.

6.4 Offer Period

Unless CIMIC's Offer is extended or withdrawn, it is open for acceptance until 7.00pm (AEDT) on 25 November 2016.

The circumstances in which CIMIC may extend or withdraw its Offer are summarised in section 6.5 and section 6.6 respectively of this Target's Statement.

6. Key features of CIMIC's Offer

6.5 Extension of the Offer Period

CIMIC may extend the Offer Period at any time before it gives the Notice of Status of Condition (referred to in section 6.3 of this Target's Statement) while the Offer is subject to the condition. If the Offer is unconditional (that is, the condition referred to in section 6.2 of this Target's Statement is fulfilled or freed), CIMIC may extend the Offer Period at any time before the end of the Offer Period.

CIMIC may only extend the Offer Period after it gives the Notice of Status of Condition in limited circumstances.

In addition, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period:

- CIMIC improves the consideration offered under the Offer in response to a competing proposal (noting that CIMIC has declared the Offer 'final' in the absence of a competing proposal and that it cannot improve the consideration in the absence of a competing proposal); or
- CIMIC's voting power in UGL increases to more than 50%.

If either of these 2 events occurs, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

6.6 Withdrawal of Offer

CIMIC may not withdraw the Offer if you have already accepted it. Before you accept the Offer, CIMIC may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

However, the Offer is conditional. If the condition to the Offer is not fulfilled or freed by the end of the Offer Period, the Offer will lapse, in which case, all contracts resulting from acceptance of the Offer and all acceptances that have not resulted in binding contracts are void. In that situation, you will be free to deal with your UGL Shares as you see fit.

6.7 Effect of acceptance

The effect of acceptance of the Offer is set out in section 9.6 and section 9.7 of the Bidder's Statement. UGL Shareholders should read those sections in full to understand the effect that acceptance will have on their ability to exercise the Rights attaching to their UGL Shares and the representations and warranties which they give by accepting the Offer.

6.8 Your ability to withdraw your acceptance

You only have limited rights to withdraw your acceptance of the Offer.

You may only withdraw your acceptance of the Offer if CIMIC varies the Offer in a way that postpones, for more than one month, the time when CIMIC needs to meet its payment obligations under the Offer and the Offer remains subject to the condition. This will occur if CIMIC extends the Offer Period by more than one month and the Offer is still subject to the condition referred to in section 6.2 of this Target's Statement.

6.9 When you will receive your consideration if you accept the Offer

CIMIC has provided in its Bidder's Statement that, subject to section 9 of its Bidder's Statement, the Corporations Act and ASIC Class Order 13/521, if you accept the Offer you will be sent your consideration on or before the later of:

- where the Offer is unconditional, 7 business days after the date on which the Offer is accepted; or
- if the Offer is subject to the condition referred to in section 6.2 of this Target's Statement when accepted, within 7 business days after the date on which the Offer becomes unconditional.

However, there are certain exceptions to the above timetable for the issuing of consideration. Full details of when you will be issued your consideration if you accept the Offer are set out in section 9.9 of the Bidder's Statement.

6.10 Effect of an improvement in consideration on UGL Shareholders who have already accepted the Offer

If CIMIC improves the consideration offered under its takeover bid (noting that it will only be entitled to do so if a competing proposal emerges), all UGL Shareholders, whether or not they have accepted the Offer before that improvement in consideration, will be entitled to the benefit of that improved consideration.

6.11 Lapse of Offer

The Offer will lapse if the Offer condition referred to in section 6.2 of this Target's Statement is not freed or fulfilled by the end of the Offer Period, in which case, all contracts resulting from acceptance of the Offer and all acceptances that have not resulted in binding contracts are void. In that situation, you will be free to deal with your UGL Shares as you see fit.

6.12 Compulsory acquisition

CIMIC will be entitled to compulsorily acquire any UGL Shares in respect of which it has not received an acceptance of its Offer on the same terms as the Offer if, during or at the end of the Offer Period:

- CIMIC and its associates have a relevant interest in at least 90% (by number) of the UGL Shares; and
- CIMIC and its associates have acquired at least 75% (by number) of the UGL Shares that CIMIC offered to acquire (excluding UGL Shares in which CIMIC or its associates had a relevant interest at the date of the Offer and also excluding UGL Shares issued to an associate of CIMIC during the Offer Period).

If this threshold is met, CIMIC will have one month after the end of the Offer Period within which to give compulsory acquisition notices to UGL Shareholders who have not accepted the Offer. UGL Shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant UGL Shareholder to establish to the satisfaction of a court that the terms of the Offer do not represent 'fair value' for their UGL Shares. If compulsory acquisition occurs, UGL Shareholders who have their UGL Shares compulsorily acquired are likely to be issued their consideration approximately five to six weeks after the compulsory acquisition notices are dispatched to them.

It is also possible that CIMIC may, at some time after the end of the Offer Period, become the beneficial holder of at least 90% of the Shares. CIMIC would then have rights to compulsorily acquire UGL Shares not owned by it within 6 months of becoming the holder of 90%. CIMIC's price for compulsory acquisition under this procedure would have to be considered in a report of an independent expert.

7

INFORMATION RELATING TO THE UGL DIRECTORS

7. Information relating to the UGL Directors

7.1 Interests and dealings in UGL securities

(a) Interests in UGL Shares, UGL Performance Rights and UGL Rights

As at the date of this Target's Statement, the UGL Directors had the following relevant interests in UGL Shares, UGL Performance Rights and UGL Rights:

Director	Number of UGL Shares	Number of UGL Performance Rights	Number of UGL Rights
Kathryn Spargo	215,389	NIL	NIL
Ross Taylor	NIL	2,575,872	118,470
Guy M Cowan	61,861	NIL	NIL
Jane Harvey	31,077	NIL	NIL
Robert Kaye SC	23,782	NIL	NIL
Total	**332,109**	**2,575,872**	**118,470**

(b) Dealings in UGL Shares, UGL Performance Rights and UGL Rights

No UGL Director has acquired or disposed of a relevant interest in any UGL Shares, UGL Performance Rights or UGL Rights in the four month period ending on the date immediately before the date of this Target's Statement, other than as follows:

- Kathryn Spargo was allocated 24,461 UGL Shares between 14 July 2016 and 14 October 2016 pursuant to the UGL Directors Share Plan;
- Guy M Cowan was allocated 5,293 UGL Shares between 14 July 2016 and 14 October 2016 pursuant to the UGL Directors Share Plan;
- Jane Harvey was allocated 5,513 UGL Shares between 14 July 2016 and 14 October 2016 pursuant to the UGL Directors Share Plan; and
- Robert Kaye SC was allocated 4,698 UGL shares between 14 July 2016 and 14 October 2016 pursuant to the UGL Directors Share Plan.

7.2 Interests and dealings in ACS, HOCHTIEF AG, CIMIC Group or Relevant Subsidiary securities

(a) Interests in ACS, HOCHTIEF AG, CIMIC Group or Relevant Subsidiary securities

As at the date immediately before the date of this Target's Statement, none of the UGL Directors had a relevant interest in the securities of ACS, HOCHTIEF AG, CIMIC Group or any subsidiary of any of the foregoing (**Relevant Subsidiary**).

(b) Dealings in ACS, HOCHTIEF AG, CIMIC Group or Relevant Subsidiary securities

No UGL Director acquired or disposed of a relevant interest in any securities in ACS, HOCHTIEF AG, CIMIC Group or a Relevant Subsidiary in the four month period ending on the date immediately before the date of this Target's Statement.

7.3 Benefits and agreements

(a) Benefits in connection with retirement from office

As a result of the Offer, no person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from a board or managerial office of UGL or related body corporate of UGL.

(b) Agreements connected with or conditional on the Offer

There are no agreements made between any UGL Director and any other person in connection with, or conditional upon, the outcome of the Offer other than in their capacity as a holder of UGL Shares, UGL Performance Rights or UGL Rights or as otherwise disclosed in section 9.5.

(c) Benefits from ACS, HOCHTIEF AG, CIMIC Group or a Relevant Subsidiary

None of the UGL Directors has agreed to receive, or is entitled to receive, any benefit from ACS, HOCHTIEF AG, CIMIC Group or a Relevant Subsidiary or any related body corporate of ACS, HOCHTIEF AG, CIMIC Group or a Relevant Subsidiary which is conditional on, or is related to, the Offer, other than in their capacity as a holder of UGL Shares, UGL Performance Rights or UGL Rights.

(d) Interests in contracts with ACS, HOCHTIEF AG, CIMIC Group or Relevant Subsidiary

None of the UGL Directors has any interest in any contract entered into by ACS, HOCHTIEF AG, CIMIC Group or Relevant Subsidiary, or any Related Body Corporate of ACS, HOCHTIEF AG, CIMIC Group or Relevant Subsidiary.

8

TAXATION CONSEQUENCES

8. Taxation Consequences

GREENWOODS
+ HERBERT
SMITH
FREEHILLS

The Directors
UGL Limited
Level 10
40 Miller Street
North Sydney NSW 2060

7 November 2016

Dear Directors

Off-market takeover bid by CIMIC Group Investments No.2 Pty Limited for all of the ordinary shares in UGL Limited
Australian Tax Implications

We have been instructed by UGL to prepare this letter to be included in the Target's Statement.

Capitalised terms not otherwise defined in this letter have the meaning given in the Target's Statement.

1 Scope

This letter is a general description of the Australian income tax and goods and services (**GST**) consequences for UGL Shareholders who either accept the Offer or whose UGL Shares are compulsorily acquired in accordance with Part 6A.1 of the Corporations Act.

This letter deals only with UGL Shareholders who hold their UGL Shares on capital account for income tax purposes. This letter does not deal with UGL Shareholders who:

- hold their UGL Shares for the purposes of speculation or a business of dealing in securities (e.g. as trading stock);
- acquired their UGL Shares pursuant to an employee share, option or rights plan; or
- are subject to the taxation of financial arrangement rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses on their UGL Shares.

The information in this letter is based upon the Australian law and administrative practice in effect at the date of this Target's Statement, but is general in nature and is not intended to be an authoritative or complete statement of the laws applicable to the particular circumstances of a UGL Shareholder. UGL Shareholders should seek independent professional advice in relation to their own particular circumstances.

UGL Shareholders who are tax residents of a country other than Australia (whether or not they are also residents, or are temporary residents, of Australia for tax purposes) should take into account the tax consequences of the Offer under the laws of their country of residence, as well as under Australian law.

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8. Taxation Consequences

2 Australian resident shareholders

2.1 Pre-CGT shares

If a UGL Shareholder acquired (for capital gains tax (**CGT**) purposes) their UGL Shares before 20 September 1985, then in general no CGT consequences will arise on a disposal of those UGL Shares.

2.2 Post-CGT shares

(a) *UGL Shareholders who sell their shares on market*

During the Offer Period, UGL Shareholders who have not already accepted the Offer may choose to sell their UGL Shares on the ASX.

The sale of UGL Shares by a UGL Shareholder on the ASX will constitute a CGT event for a UGL Shareholder.

The date of the CGT event will be the date the contract to sell the UGL Shares is entered into by the UGL Shareholder.

(b) *UGL Shareholders who accept the Offer*

Acceptance of the Offer will involve the disposal by UGL Shareholders of their UGL Shares by way of transfer to CIMIC. This change in the ownership of the UGL Shares will constitute a CGT event for a UGL Shareholder.

The date of the CGT event will be the date the contract to dispose of the UGL Shares is entered into by the UGL Shareholder.

(c) *Compulsory Acquisition*

If a UGL Shareholder does not dispose of their UGL Shares either on the ASX or under the Offer and their UGL Shares are compulsorily acquired in accordance with Part 6A.1 of the Corporations Act, those UGL Shareholders will also be treated as having disposed of their UGL Shares for CGT purposes.

The date of the CGT event will be the date when the UGL Shareholder ceases to be the owner of the UGL Shares.

(d) *Calculation of capital gain or capital loss*

UGL Shareholders will make a capital gain to the extent that the capital proceeds from the disposal of the UGL Shares are more than the cost base of those UGL Shares.

Conversely, UGL Shareholders will make a capital loss to the extent that the capital proceeds are less than their reduced cost base of those UGL Shares.

(e) *Cost base*

The cost base of the UGL Shares generally includes the purchase price paid for the shares and certain non-deductible incidental costs of their acquisition and disposal. The reduced cost base of the UGL Shares is usually determined in a similar, but not identical, manner.

If the UGL Shares were acquired (for CGT purposes) at or before 11.45am on 21 September 1999, a UGL Shareholder who is an individual, a complying superannuation entity or the trustee of a trust may choose to adjust the cost base of their UGL Shares to include indexation by reference to changes in the consumer price index from (generally) the calendar quarter in which their UGL Shares were acquired until the quarter ended 30 September 1999.

UGL Shareholders that are companies will include that indexation adjustment in their cost base if their UGL Shares were acquired (for CGT purposes) at or before 11.45am on 21 September 1999.

Indexation adjustments are taken into account only for the purposes of calculating capital gains; they are ignored when calculating capital losses.

(f) *Capital proceeds*

For UGL Shareholders who accept the Offer or whose Shares are compulsorily acquired, the capital proceeds received in respect of the CGT event should be A$3.15 per UGL Share.

For UGL Shareholders who sell their Shares on the ASX, the capital proceeds received in respect of the CGT event should be the price per share received by the UGL Shareholder in respect of the sale.

(g) *Other issues*

Individuals, complying superannuation entities or trusts that have held their UGL Shares for at least 12 months before the CGT event but do not index the cost base of the UGL Shares (refer above) may be entitled to discount the amount of the capital gain (after application of capital losses) from the disposal of UGL Shares by 50% in the case of individuals and trusts or by 33⅓% for complying superannuation entities. For trusts, the ultimate availability of the discount for beneficiaries of the trust will depend on the particular circumstances of the beneficiaries.

Capital gains (prior to any CGT discount) and capital losses of a taxpayer in an income year are aggregated to determine whether there is a net capital gain. Any net capital gain is included in assessable income and is subject to income tax. Capital losses may not be deducted against other income for income tax purposes, but may be carried forward to offset against future capital gains (subject to satisfaction of loss recoupment tests for certain taxpayers).

3 Non-resident shareholders

For a UGL Shareholder who:

- is not a resident of Australia for Australian tax purposes; and
- does not hold their UGL Shares in carrying on a business through a permanent establishment in Australia;

the disposal of UGL Shares will generally only result in Australian CGT implications if:

(a) that UGL Shareholder together with its associates held 10 percent or more of the UGL Shares at the time of the CGT event or for any continuous 12 month period within 2 years preceding the CGT event (referred to as a 'non-portfolio interest'); and

(b) more than 50% of UGL's value at the time of the CGT event is attributable to direct or indirect interests in Australian real property (as defined in the income tax legislation).

Non-resident UGL Shareholders who hold a 'non-portfolio interest' in UGL should obtain independent advice as to the tax implications of sale.

A non-resident individual UGL Shareholder who has previously been a resident of Australia and chose to disregard a capital gain or loss on ceasing to be a resident will be subject to Australian CGT consequences on disposal of the UGL Shares as set out in section 2.

8. Taxation Consequences

GREENWOODS
+HERBERT
SMITH
FREEHILLS

4 GST

UGL Shareholders should not be liable to GST in respect of a disposal of their UGL Shares.

UGL Shareholders may be charged GST on costs (such as advisor fees relating to their participation in the Offer) that relate to the Offer. UGL Shareholders may be entitled to input tax credits or reduced input tax credits for such costs, but should seek independent advice in relation to their individual circumstances.

Yours sincerely

Greenwoods + Herbert Smith Freehills Pty Ltd

Greenwoods & Herbert Smith Freehills Pty Limited

9

ADDITIONAL INFORMATION

9. Additional information

9.1 Effect of the Offer on UGL's material contracts (other than financing arrangements)

UGL estimates that approximately:

- 38%[1] (or $1.03 billion[2]) of the operating revenue UGL expects to recognise in FY2017; and
- 57% (or $3.05 billion) of the operating revenue UGL expects to recognise from its 30 September 2016 order book of secured contracts,

is derived from material contracts[3] which contain provisions regarding a change of control (**Relevant Material Contracts**). Some of these change of control provisions may be triggered depending on the level of acceptances under CIMIC's takeover bid[4]. If triggered, these provisions may lead to adverse consequences for UGL, including through the potential loss of revenue.

Some of the Relevant Material Contracts contain consent processes, under which counterparties require prior consent to be sought for a change of control. In some cases this includes the provision (to the counterparty's satisfaction) of additional information about the new controlling party. Where such consent is not received, a change in control may constitute an event of default under the contract or otherwise give rise to termination rights in favour of the counterparties. In some cases involving joint ventures this may give a counterparty the right to purchase UGL's interest in a contracting entity.

Some of the material contracts contain provisions regarding termination for convenience in favour of relevant counterparties, which may lead to adverse consequences for UGL, including through the loss of revenue. In many cases where there is a termination for convenience right, if the counterparty exercises that right, the counterparty must make certain compensatory payments to UGL. If these additional termination rights for convenience are included, the amount of operating revenue UGL expects to recognise in FY2017 which may be subject to adverse consequences increases to $1.41 billion (or to 53%[5] of the operating revenue UGL expects to recognise in FY2017).

Additionally, some of the material contracts (including certain of them that do not contain change of control provisions) may require provision of a parent company guarantee by the ultimate parent company of UGL from time to time. This requirement will be relevant if UGL has a new ultimate parent company as a result of CIMIC's takeover bid. (For a further discussion in relation to this issue, see section 5.9(e)).

Change of control risks associated with UGL's financing arrangements are dealt with in section 9.2.

9.2 Potential impact of the Offer on UGL's existing financing arrangements

As mentioned in section 4.6, UGL has entered into a syndicated facility agreement for the provision of new facilities which will be used to refinance in part certain existing bank debt and guarantee facilities, subject to satisfaction of the conditions precedent to draw down under that syndicated facility agreement, including the provision of security over the assets of UGL and its subsidiaries (subject to certain exclusions) to secure repayment of those new facilities.

Set out below is an overview of the relevant potential material impacts of the Offer on UGL's existing financing arrangements.

(a) Bank facilities

UGL has certain bilateral unsecured debt facilities in place with Australia and New Zealand Banking Group Limited, ANZ National Bank Limited, National Australia Bank Limited, Westpac Banking Corporation, HSBC Bank Australia Limited and Standard Chartered Bank, Singapore Branch and certain related hedging arrangements (**Existing Bank Facilities**).

The Existing Bank Facilities benefit from a deed of covenant (**Deed of Covenant**), which sets out the representations, warranties, undertakings, events of default and review events applicable to the Existing Bank Facilities.

The Deed of Covenant provides that any change in the shareholding in UGL or any other transaction or arrangement such that:

- UGL becomes a subsidiary of a company or other person;
- any person (together with its associates) becomes (or, assuming conversion of all such holder's rights to acquire voting shares, would become) the holder of more than 50% voting power in UGL; or
- there is a change in the effective control of the board of directors of UGL or the effective control over the composition of the board of directors of UGL,

1 This percentage figure has been calculated by dividing $1.03 billion by $2,681.3 million (which is the forecast operating revenue for FY2017 referred to in section 4.4(c)).

2 This figure of $1.03 billion represents the sum of three months actual revenue to 30 September 2016 and nine months forecast revenue to 30 June 2017 from the Relevant Material Contracts.

3 Material contracts, for the purposes of this section 9.1, are contracts to which a member of the UGL Group or a joint venture entity (in which a member of the UGL Group has an interest) is a party, and which are included in UGL's 30 September 2016 order book of secured contracts and which are expected to earn greater than $20 million in revenue for UGL for the remaining term of the contracts.

4 In some cases, the change of control threshold is set at a relevant interest in UGL Shares of less than 50%, for example 30%.

5 This percentage figure has been calculated by dividing $1.41 billion by $2,681.3 million (which is the forecast operating revenue for FY2017 referred to in section 4.4(c)).

will trigger a 'Review Event', upon which a financier may, within 30 days after notification to it of the Review Event, give notice to UGL that it wishes to either:

- change the conditions of the relevant Existing Bank Facility (including in relation to fees, costs, interest rates, discount fees and margins); or
- terminate the relevant Existing Bank Facility.

If a financier proposes changes to the conditions of an Existing Bank Facility and such changes are not acceptable to UGL, UGL must prepay the relevant Existing Bank Facility within 60 days after receipt of notice from the financier. If the relevant Existing Bank Facility is not so repaid, the proposed changes to the conditions of the relevant Existing Bank Facility will take effect from such date.

If a financier terminates an Existing Bank Facility, from the date 60 days after UGL receives the termination notice from the relevant financier, the Review Event will be treated as an event of default and the financier may accelerate repayment of the relevant Existing Bank Facility at that time.

(b) Surety bond facilities

UGL has unsecured surety bond facilities in place with AAI Limited (**AAI**) and Swiss RE International SE (**Swiss RE**) (each a **Surety**). The surety bond facility with AAI is referred to here as the **AAI Surety Bond Facility** and the surety bond facility with Swiss RE is referred to here as the **Swiss RE Surety Bond Facility.**

The aggregate limits of the AAI Surety Bond Facility and the Swiss RE Surety Bond Facility are $86 million and $100 million respectively. As at the Last Practical Date, the amount utilised under the AAI Surety Bond Facility was $80 million and the amount utilised under the Swiss RE Surety Bond Facility was $0 million.

The AAI Surety Bond Facility and the Swiss RE Surety Bond Facility are both subject to annual review.

The Surety under the AAI Surety Bond Facility has a right to review each bond request under the facility. In particular, if the Surety becomes aware of any material circumstance which, in their opinion, could lead to the deterioration in the financial or operating condition of UGL, the Surety may review the terms of the AAI Surety Bond Facility and, where necessary, decline to provide further bonds under that facility. Such a review does not affect any bonds already issued under the AAI Surety Bond Facility.

The Surety under the Swiss RE Surety Bond Facility similarly has the power in its sole discretion, to review the terms of the facility (including the facility fee) and can decline to issue further bonds under the facility if it determines that UGL's financial or operational position has deteriorated.

The Swiss RE Surety Bond Facility also imposes a separate 'ongoing requirement' on UGL to give the Surety immediate written notification of any change in shareholdings, directors, principals or managers of any 'indemnifier' (which includes UGL) which is material in nature or would require reporting to the ASX by an Australian publicly listed company.

(c) US notes issued pursuant to US private placements

As at the Last Practical Date, UGL had an aggregate of US$11 million[6] outstanding under two tranches of unsecured US notes issued pursuant to US private placements. The US notes have fixed interest rates, with a weighted average of 6.35% over the two tranches.

The note and guarantee agreements governing UGL's US notes provide that any change in the shareholding in UGL (or any other transaction or arrangement) such that:

- UGL becomes a subsidiary of a company or other person;
- any person (together with its associates) becomes (or, assuming conversion of all such holder's rights to acquire voting shares, would become) the holder of more than 50% voting power in UGL; or
- there is a change in the effective control of the board of directors of UGL or the effective control over the composition of the board of directors of UGL,

will constitute a '**Change of Control**'.

Promptly (and not later than 21 days) following the occurrence of any Change of Control, UGL is required to notify holders of the US notes of such Change of Control and make an offer to prepay the outstanding principal amount of the US notes, together with accrued and unpaid interest to the date of prepayment (but without any make-whole or modified make-whole amount), on a date not later than 60 days following the date of such notice (and not later than the date of prepayment under the Existing Bank Facilities).

Any default by UGL in the payment of principal in connection with such an offer to prepay the US notes would result in an event of default.

6 Approximately A$14.4 million at an exchange rate of US$0.7613 = A$1.00.

9. Additional information

In addition, the note and guarantee agreements require UGL to ensure that no person other than it and its wholly-owned subsidiaries at any time controls United Group Investment Partnership, a Delaware general partnership and the issuer of the US notes. If it was alleged that a change in the shareholding in UGL resulted in UGL ceasing to control the issuer of the US notes, an event of default could arise 30 days following either:

- delivery by a holder of the US notes of a notice of default referencing a breach of this covenant; or
- a responsible officer of UGL obtaining actual knowledge of any such breach.

Upon either such event of default, holders of more than 50% of the outstanding principal amount of a tranche of US notes may declare the outstanding principal amount of such tranche of US notes, plus accrued and unpaid interest on such US notes and a make-whole amount, to be immediately due and payable.

9.3 Disputes

UGL is involved in the following disputes which may be considered material in the context of the UGL Group:

- **Representative proceeding**

  In April 2015, Melbourne City Investments (**MCI**) commenced a representative proceeding against UGL in the Supreme Court of Victoria on behalf of itself and other UGL Shareholders who acquired UGL Shares on or after 12 August 2013 and were holders of any of those UGL Shares at the commencement of trading on 6 November 2014. The action concerns disclosures made by UGL in relation to the financial performance of its joint venture with CH2M Hill on the construction of a combined cycle power plant for the Ichthys liquefied natural gas project. In October 2015, the Court found that parts of the claim should be struck out on the basis that they had no reasonable prospects of success and that MCI did not have standing to bring the remaining claims. Following that decision, MCI unsuccessfully applied to have the judge recuse himself from further hearing the matter on the basis of apprehended bias. MCI has since applied for leave to appeal the recusal decision. UGL has applied to have the whole of the proceeding permanently stayed as an abuse of process. Both applications are currently pending with hearing dates to be fixed. UGL is continuing to defend the action and has not made any provision in its accounts for the payment of any claim if the action ultimately proceeds.

- **Potential class action**

  On 28 September 2016, IMF Bentham (**IMF**) announced that it proposes to fund claims of certain current and former shareholders of UGL who acquired UGL Shares at any time between 8 August 2014 and 5 November 2014 (inclusive) and were holders of any of those UGL Shares at the commencement of trading on 6 November 2014. The claims relate to alleged misleading or deceptive conduct and to alleged breaches by UGL of its continuous disclosure obligations in connection with its joint venture CH2M Hill on the construction of a combined cycle power plant for the Ichthys liquefied natural gas project. The proposed action is to be run by Slater & Gordon lawyers in Melbourne. IMF's funding of the proposed action is conditional on sufficient claimants with valid claims entering into funding agreements with IMF. Proceedings have not been commenced and UGL is not aware of the number of claimants participating in the proposed action or the quantum of their claims.

- **Ichthys CCPP – ABB v CH2M UGL JV**

  A number of disputes have arisen between ABB and CH2M UGL JV for the supply of equipment for the Ichthys CCPP Project, with ABB claiming an additional $5,843,633 and CH2M UGL JV claiming a reduction in the contract price in an amount of $5,563,913. The reduction in price claimed by CH2M UGL JV reflects its claims for incomplete and/or defective works, in-scope items not supplied and delay liquidated damages. ABB commenced two adjudications under the *Northern Territory Construction Contracts (Security of Payment) Act*. The amount claimed by ABB in the First Adjudication Application was $2,418,603.99. The adjudicator dismissed ABB's application without making a determination for being out of time. ABB has applied to the NT Supreme Court to have the decision set aside. The matter has been heard and the parties are awaiting his Honour's findings. The amount claimed by ABB in the Second Adjudication Application was $5,889,855 and the adjudicator awarded ABB an amount of $3,065,496.18 (excluding GST). CH2M UGL JV applied to the NT Supreme Court to have the adjudicator's determination reviewed and was successful in having the determination quashed for lack of adequate reasoning by the adjudicator. ABB have appealed her Honour's finding and are seeking to have the matter returned to the original adjudicator so that he may improve his reasoning in support of the original award. Should the matter not be resolved, there is the potential that it may escalate to mediation and/or arbitration.

- **Ichthys CCPP – Hyundai v CH2M UGL JV**

  A number of disputes have arisen between Hyundai and CH2M UGL JV in relation to the pipe racks manufactured by Hyundai and shipped to site in modules for assembly. The disputes have not yet crystallised but are likely to involve a claim by Hyundai for additional structural steel (on a unit rate basis, whereas the contract is for an agreed lump sum) and other additional works (which are disputed) and on its face may involve an amount in the order of $10 million. CH2M UGL has a number of counter-claims, including for delay liquidated damages.

- **Ichthys CCPP – CH2M UGL JV v JKC**

  As noted in section 4.2, CH2M UGL JV has submitted and continues to submit claims in relation to the CCPP Project. Should these not be settled by agreement, CH2M UGL JV will dispute these claims with JKC.

- **Ichthys SMP (Mec-1) – UGL Kentz JV v JKC**

  As noted in section 4.2, UGL Kentz JV has submitted and continues to submit claims in relation to the SMP (Mec-1) project. Should these not be settled by agreement, UGL Kentz JV will dispute these claims with JKC.

9.4 UGL's issued capital

As at the date of this Target's Statement, UGL had 166,511,240 UGL Shares on issue.

In addition, UGL has also issued

- 6,293,678 UGL Performance Rights; and
- 389,155 UGL Rights,

which entitle holders to receive UGL's Shares on vesting (see section 9.5 for further information).

As at the date of this Target's Statement, the trustee of the UGL Employee Share Plan Trust held 3,564,001 UGL Shares.

9.5 Effect of the Offer on UGL Performance Rights and UGL Rights

(a) The UGL Performance Rights and the UGL Rights

UGL's senior executive remuneration framework includes both a short term incentive (with STI deferral) and a long term incentive.

The short term incentive is an 'at risk' award opportunity for the achievement of one year performance objectives linked to relevant business strategy and annual goals. Under the short term incentive, participants receive awards based on the achievement of the specific annual financial and non-financial targets applying to the relevant financial year. The short term incentive framework incorporates an STI deferral, whereby 25% of any short term incentive award of $50,000 or more is required to be deferred into equity (in the form of UGL Rights). The remainder of the short term incentive award is paid in cash. The UGL Rights are subject to a time-based vesting condition of 2 years.

The long term incentive is an 'at risk' award opportunity for the achievement of performance hurdles, with a usual measurement period of three years. Participants are granted UGL Performance Rights which vest subject to the achievement of performance conditions. 50% of each long term incentive grant is subject to a relative TSR hurdle and 50% of each long term incentive grant is subject to an EPS hurdle.

Each UGL Right or UGL Performance Right is an entitlement to one UGL Share. If UGL Rights or UGL Performance Rights held by a participant vest, the rules of the UGL Employee Securities Plan provide that UGL may satisfy that vesting by a new issue of shares, the acquisition of UGL Shares on the ASX or the transfer of existing UGL Shares from the UGL Employee Share Plan Trust to the participant.

Prior to vesting, UGL Rights and UGL Performance Rights do not have voting rights or entitlements to dividends. No cash amount is payable by the holder of UGL Rights or UGL Performance Rights on the vesting of their UGL Rights or their UGL Performance Rights (as the case may be).

The rules of the UGL Employee Securities Plan include provisions on the treatment of UGL Rights and UGL Performance Rights in the event of a takeover and in other change of control circumstances. The UGL Board has certain discretions under certain of these rules, but also certain mandated actions. For example, in specified takeover circumstances, the UGL Board must consider whether, and may determine whether, some or all of a participant's UGL Rights vest, having regard to specified factors. Generally, in the event of a takeover or change of control of UGL, the UGL Board may determine to vest some or all of the UGL Rights and the UGL Performance Rights. In making this determination, the UGL Board will consider all relevant circumstances, including the performance against the TSR and EPS measures up to the date of the applicable event (in the case of the UGL Performance Rights) and the portion of the performance period that has expired.

(b) Number of unvested UGL Performance Rights and UGL Rights

The number of unvested UGL Performance Rights and UGL Rights on issue as at the date of this Target's Statement is specified in section 9.4 of this Target's Statement.

(c) Proposed treatment of the UGL Performance Rights and UGL Rights

The UGL Board has resolved that:

- pursuant to the rules of the UGL Employee Securities Plan and having regard to performance relative to the applicable hurdles applying to the UGL Rights or UGL Performance Rights, if any, and the time elapsed since the date of grant, if CIMIC acquires 50% or more of UGL's issued capital or a change of control occurs as defined in section 50AA of the Corporations Act, then:

9. Additional information

- all UGL Rights will vest in full, on and with effect from the date CIMIC achieves a shareholding of 50% or more, or a change of control occurs as defined in section 50AA of the Corporations Act;
- all UGL Performance Rights, other than tranche 2 of the CEO's grant, will vest in full, on and with effect from the date CIMIC achieves a shareholding of 50% or more, or a change of control occurs as defined in section 50AA of the Corporations Act; and
- tranche 2 of the CEO's grant will vest on a pro rata basis, based on the time period up to and including 30 June 2017 (so that 72.5% of this tranche will vest). Vesting will occur on and with effect from the date CIMIC achieves a shareholding of 50% or more, or a change of control occurs as defined in the Corporations Act;

- these determinations apply in respect of the unvested UGL Performance Rights and UGL Rights on issue as at the date of this Target's Statement, and also to any additional UGL Rights issued to satisfy the deferred STI component of the FY2016 STI already determined, accrued and earned, as referred to in deferred STI grant letters sent to executives (which were sent before UGL was notified of CIMIC's Offer), pursuant to a waiver of Listing Rule 7.9 granted by ASX to UGL in connection with the Offer (see section 9.6); and
- vesting of these UGL Rights and UGL Performance Rights will be satisfied by the transfer of existing UGL Shares from the UGL Employee Share Plan Trust to the participant (in the case of all UGL Rights and UGL Performance Rights held by the CEO and any additional UGL Rights issued pursuant to the waiver of Listing Rule 7.9 granted by ASX to UGL) or the issue of new shares (in the case of all other existing UGL Rights and UGL Performance Rights). (If additional UGL Rights are not able to be issued to satisfy the deferred STI component of the FY2016 STI already determined, accrued and earned, this deferred STI component will be settled in cash); and
- the FY2017 grant of UGL Performance Rights be withdrawn as at the date of the Target's Statement.

The UGL Board has also resolved that:

- pursuant to the rules of the UGL Employee Securities Plan, unless the UGL Board decides otherwise, if CIMIC does not acquire 50% or more of UGL's issued capital, or a change of control as defined in section 50AA of the Corporations Act does not occur, then all existing UGL Rights and UGL Performance Rights will be left on foot, and the FY2017 grant of UGL Performance Rights will occur (subject to compliance with applicable ASX Listing Rules).
- participants in UGL's short term incentive arrangements for FY2017 (including the CEO) will be entitled to receive a guaranteed cash-based short term incentive payment equivalent to 50% of their FY2017 short term incentive. Other cash retention amounts may be paid (but recipients would not include the CEO). These payments are approved as retention elements for the impacted employees, and (although payable if there is a change of control as a result of the Offer) will be subject to clawback in the event an employee resigns or is dismissed for gross misconduct prior to 30 June 2017.

(d) Ability of holders of UGL Performance Rights and UGL Rights to participate in the Offer

CIMIC has obtained ASIC relief to confirm that CIMIC's Offer extends to UGL Shares that are issued during the period from the Register Date to the end of the Offer Period due to the vesting of, conversion of or exercise of rights attached to, UGL Performance Rights and UGL Rights that were on issue as at the Register Date. A copy of the relief from ASIC was attached to CIMIC's ASX announcement dated 25 October 2016.

CIMIC confirmed in its ASX announcement dated 25 October 2016 that, if UGL issues UGL Shares on or after the Register Date and before the end of the Offer Period as a result of the vesting of, conversion of or exercise of rights attached to, any of the UGL Performance Rights or UGL Rights (that were on issue at the Register Date), CIMIC may not regard such issuance as non-fulfilment of the condition in section 9.8(a)(i)(D) of its Bidder's Statement.

This means that any holder of UGL Performance Rights or UGL Rights that were on issue as at the Register Date, whose UGL Performance Rights or UGL Rights (as the case may be) vest during the Offer Period can accept the Offer in respect of the Shares that they receive upon such vesting in the same way as any other UGL Shareholder. Details on how to accept the Offer are set out in the Bidder's Statement.

CIMIC is not making a separate offer to acquire any outstanding UGL Performance Rights or UGL Rights. However, CIMIC has stated in section 4.4(b) of its Bidder's Statement that if it acquires a Relevant Interest in 90% or more of the UGL Shares:

- if it becomes entitled to do so under the Corporations Act, CIMIC intends to give notices to compulsorily acquire any outstanding UGL Shares, UGL Performance Rights and UGL Rights in accordance with section 661B of the Corporations Act; and
- if it is required to do so under sections 662A and 663A of the Corporations Act, CIMIC intends to give notices to UGL Shareholders and holders of UGL Performance Rights and UGL Rights offering to acquire their UGL Shares, UGL Performance Rights and UGL Rights in accordance with sections 662B and 663C of the Corporations Act.

9.6 ASX Listing Rule waiver

On 4 November 2016, ASX granted UGL a waiver of Listing Rule 7.9 in connection with the Offer.

Listing Rule 7.9 restricts an entity from issuing equity securities, without shareholder approval, for three months after it is told in writing that a person is making or proposing to make a takeover bid.

The effect of this waiver is to permit UGL (to the extent necessary) to proceed with the grant of UGL Rights to participants under the terms of deferred STI grant letters which were sent before UGL was notified of CIMIC's Offer, without shareholder approval and within the 3 month period since receiving the Proposal. In accordance with the waiver, UGL may issue approximately 300,000 UGL Rights for the deferred STI component of the FY2016 STI already determined, accrued and earned. The conditions of the ASX waiver are:

- Any vesting of the UGL Rights the subject of the waiver within the period of 3 months after UGL was notified of CIMIC's Offer will be satisfied solely through the transfer of existing UGL Shares from the UGL Employee Share Plan Trust;
- UGL provides to ASX written confirmation from CIMIC that the issue of the UGL Rights the subject of the waiver would not constitute a defeating condition under CIMIC's Offer, in circumstances where any vesting of the UGL Rights the subject of the waiver within the period of 3 months after UGL was notified of CIMIC's Offer will be satisfied solely through the transfer of existing UGL Shares from the UGL Employee Share Plan Trust; and
- UGL immediately releases the details of the waiver to the ASX.

ASX has also confirmed that it will regard Exception 3 to Listing Rule 7.9 as applying in relation to any issue of UGL Shares to satisfy the vesting of UGL Performance Rights and UGL Rights that had been granted before the date of CIMIC's Offer.

9.7 Substantial holders

As at the Last Practical Date, according to notices filed with the ASX, the substantial holders in UGL were:

Substantial holder	Number of UGL Shares	% of UGL Shares
Allan Gray Australia Pty Ltd	31,245,875	18.77
CIMIC	23,044,609	13.84
AXA SA, and Alliance Bernstein Australia Limited	12,892,094	7.74
Invesco Australia Limited	13,774,383	8.27
Legg Mason Asset Management Limited	8,392,604	5.04

9.8 Consents

Goldman Sachs Australia Pty Ltd (**Goldman Sachs**) has given, and not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as UGL's financial adviser in the form and context in which it is so named. Goldman Sachs has not caused or authorised the issue of this Target's Statement, does not make, or purport to make, any statement in the Target's Statement or any statement on which a statement in the Target's Statement is based and takes no responsibility for any part of this Target's Statement other than any reference to its name.

Gresham Advisory Partners Limited (**Gresham**) has given, and not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as UGL's financial adviser in the form and context in which it is so named. Gresham has not caused or authorised the issue of this Target's Statement, does not make, or purport to make, any statement in the Target's Statement or any statement on which a statement in the Target's Statement is based and takes no responsibility for any part of this Target's Statement other than any reference to its name.

Herbert Smith Freehills has given, and not withdrawn before the lodgement of the Target's Statement with ASIC, its written consent to be named in this Target's Statement as UGL's Australian legal adviser in the form and context in which it is named. Herbert Smith Freehills has not caused or authorised the issue of this Target's Statement, does not make, or purport to make, any statement in the Target's Statement or any statement on which a statement in the Target's Statement is based and takes no responsibility for any part of this Target's Statement other than any reference to its name.

9. Additional information

Greenwoods & Herbert Smith Freehills (**G&HSF**) has given, and not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement in the form and context in which it is named and to the inclusion of statements made by, or statements said to be based on statements made by, G&HSF in the form and context in which the statements appear, including its letter in section 8 of this Target's Statement. G&HSF has not caused or authorised the issue of this Target's Statement and, to the maximum extent permitted by law, expressly disclaims, and takes no responsibility for, any part of this Target's Statement other than the references specified above.

Grant Samuel has given, and not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement in the form and context in which it is named as the Independent Expert and to the inclusion of statements made by, or statements based on statements made by, Grant Samuel in the form and context in which the statements appear, including the Independent Expert's Report, as set out in Attachment 3 to this Target's Statement. Grant Samuel has not caused or authorised the issue of this Target's Statement and, takes no responsibility for, any part of this Target's Statement other than the references specified above.

As permitted by ASIC Class Order 13/521 this Target's Statement contains statements which are made, or based on statements made, in documents lodged by CIMIC or CIMIC Group with ASIC or given to the ASX, or announced on the Company Announcements Platform of the ASX, by CIMIC or CIMIC Group. Pursuant to the Class Order, the consent of CIMIC and CIMIC Group is not required for the inclusion of such statements in this Target's Statement. Any UGL Shareholder who would like to receive a copy of any of those documents may obtain a copy (free of charge) during the Offer Period by contacting the UGL Shareholder information line on 1300 415 866 (for calls made from within Australia) or +61 2 8022 7947 (for calls made from outside Australia). Telephone calls to these numbers may be recorded.

As permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target's Statement may include or be accompanied by certain statements:

- fairly representing what purports to be a statement by an official person; or
- that are a correct and fair copy of, or extract from, what purports to be a public official document; or
- that are a correct and fair copy of, or extract from, a statement which has already been published in a book, journal or comparable publication.

In addition, as permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target's Statement contains share price trading data sourced from IRESS without its consent.

9.9 DTZ escrow account

Under the DTZ Share Sale Agreement relating to UGL's sale of its DTZ business to a private equity consortium in 2014, an escrow account was set up to make funds available to the buyers of DTZ to recover costs and losses associated with certain categories of incurred but not reported professional indemnity claims against DTZ that are received after completion of the DTZ sale (5 November 2014) relating to events prior to that date.

The funds in escrow reflect provisions previously held by UGL for certain of DTZ's self-insured professional indemnity losses.

At the end of the escrow period, the funds remaining in the escrow account after deduction of an amount (payable to the buyer of DTZ) that reflects an actuarial assessment of any residual self-insured exposure and valuation of any outstanding claims, are to be returned to UGL. The escrow period expires on 5 December 2017.

The escrow amount was originally £19,550,000, at completion of the DTZ sale. Taking into account all defence costs paid to date, as at 17 October 2016 the balance in the escrow account was £19,501,767.55, with six claims on foot. No figure is recorded on the UGL balance sheet for the escrow amount. Whilst there can be no certainty at present, given the claims on foot, UGL is hopeful for a return from the escrow account in FY2018.

9.10 No other material information

This Target's Statement is required to include all the information that UGL Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information is known to any Director of UGL.

The UGL Directors are of the opinion that the information that UGL Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- the information contained in UGL's releases to the ASX, and in the documents lodged by UGL with ASIC before the date of this Target's Statement; and
- the information contained in this Target's Statement (including the information contained in the Independent Expert's Report).

The UGL Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the UGL Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

In deciding what information should be included in this Target's Statement, the Directors of UGL have had regard to:

- the nature of the UGL Shares;
- the matters that UGL Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to UGL Shareholders' professional advisers; and
- the time available to UGL to prepare this Target's Statement.

10

GLOSSARY
AND INTERPRETATION

10. Glossary and interpretation

10.1 Glossary

In this Target's Statement unless the context otherwise appears, the following terms have the meanings shown below:

Term	Meaning
AAI Surety Bond Facility	has the meaning given in section 4.5(b).
ACS	Actividades de Construccion y Servicios S.A.
AEDT	Australian Eastern Daylight Time and, for the avoidance of doubt, means the time in Sydney, Australia.
ASIC	Australian Securities and Investments Commission.
ASX	as the context requires, ASX Limited, or the securities market conducted by it.
ASX Listing Rules	the official listing rules of ASX, as amended or replaced from time to time except to the extent of any express written waiver by ASX.
Base Business	means UGL's operating divisions excluding the Ichthys Projects.
Bidder's Statement	the bidder's statement of CIMIC dated 25 October 2016 (as supplemented by its First Supplementary Bidder's Statement dated 26 October 2016 and Second Supplementary Bidder's Statement Dated 3 November 2016).
Board	the board of directors of UGL.
CCPP Project	has the meaning given in section 4.2(b).
CGT	capital gains tax.
CIMIC	CIMIC Group Investments No. 2 Pty Limited ACN 610 264 189.
CIMIC Group	CIMIC Group Limited ACN 004 482 982.
CIMIC Shares	fully paid ordinary shares of CIMIC.
Condition Period	the period beginning on 10 October 2016 and ending at the end of the Offer Period (each inclusive).
Corporations Act	the *Corporations Act 2001* (Cth) (as modified or varied by ASIC).
Director or **UGL Director**	any current director of UGL.
Directors' Forecast	has the meaning given in section 4.4(a).
EBIT	earnings before interest and tax.
EBITDA	earnings before interest, tax, depreciation and amortisation.
Existing Bank Facilities	has the meaning given in section 9.2(a) of this Target's Statement.
EPS	earnings per share.
EV	enterprise value.
Financial Information	has the meaning given in section 4.4(a).
FY2016 or **FY16**	2016 financial year being the period commencing on 1 July 2015 and ending on 30 June 2016 (and the same rule applies for other financial years referred to in this Bidder's Statement).
Grant Samuel	Grant Samuel & Associates Pty Limited ACN 050 036 372.
Historical Financial Information	has the meaning given in section 4.4(a).
HOCHTIEF AG	HOCHTIEF Aktiengesellschaft.
Ichthys Projects	has the meaning given in section 4.2(b).
Independent Expert	Grant Samuel.
Independent Expert's Report	the independent expert's report prepared by the Independent Expert which is contained in Attachment 3 to this Target's Statement.
Issuer Sponsored Holding	a holding of Shares on UGL's issuer sponsored subregister.
JV	joint venture.
Last Practical Date	1 November 2016.
LNG	liquefied natural gas.

Term	Meaning
Majority Directors	Ms Kathryn Spargo, Mr Ross Taylor, Mr Guy M Cowan and Ms Jane Harvey, being the UGL Directors who recommend that UGL Shareholders accept the Offer in the absence of a superior proposal.
New Facility	has the meaning given in section 4.6(b).
Notice of Status of Condition	CIMIC's notice disclosing the status of the condition to the Offer which is required to be given by section 630(3) of the Corporations Act.
Offer or **CIMIC's Offer**	the offer by CIMIC for the UGL Shares, which offer is contained in the Bidder's Statement.
Offer Period	the period during which the Offer will remain open for acceptance in accordance with the Bidder's Statement.
Offer Price	means $3.15 cash per UGL Share.
Register Date	means 7.00pm (AEDT) on 11 October 2016.
Rights	has the meaning given in section 10 of the Bidder's Statement.
SMP Project	has the meaning given in section 4.2(b).
Target's Statement	this document (including the attachments), being the statement of UGL under Part 6.5 Division 3 of the Corporations Act.
TSR	total shareholder return.
UGL	UGL Limited ACN 009 180 287.
UGL Board	the board of directors of UGL.
UGL Employee Securities Plan	the UGL Limited Employee Securities Plan
UGL Employee Share Plan Trust	the trustee of the UGL Employee Securities Plan.
UGL Group	UGL and its subsidiaries as at the date of this Target's Statement.
UGL Performance Rights	means the UGL Performance Rights granted under the UGL Employee Securities Plan as discussed in section 9.5 of this Target's Statement.
UGL Rights	means the UGL Rights granted under the UGL Employee Securities Plan as discussed in section 9.5 of this Target's Statement.
UGL Shares or **Shares**	fully paid ordinary shares in UGL.
UGL Shareholder or **Shareholder**	a registered holder of UGL Shares.
VWAP	volume weighted average price.
WIP	work in progress.

10.2 Interpretation

In this Target's Statement, unless the context otherwise appears:

(1) Other words and phrases have the same meaning (if any) given to them in the Corporations Act.

(2) Words of any gender include all genders.

(3) Words importing the singular include the plural and vice versa.

(4) An expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa.

(5) A reference to a section, clause, attachment and schedule is a reference to a section of, clause of and an attachment and schedule to this Target's Statement as relevant.

(6) A reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them.

(7) Headings and bold type are for convenience only and do not affect the interpretation of this Target's Statement.

(8) A reference to time is a reference to AEDT.

(9) A reference to dollars, $, A$, AUD, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia.

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AUTHORISATION

11. Authorisation

This Target's Statement has been approved by a resolution passed by the UGL Directors. All UGL Directors voted in favour of that resolution.

Signed for and on behalf of UGL:

Date	7 November 2016
Signed	
Name	Kathryn Spargo
Position	Chairman

ATTACHMENT 1

UGL HISTORICAL FINANCIALS

Attachment 1 – UGL Historical Financials

UGL historical financials

The selected consolidated statements of profit or loss, financial position and cash flows information for UGL outlined in this Attachment have been extracted from the audited consolidated financial statements of UGL for the financial years ended 30 June 2015 and 30 June 2016. For further information in relation to these statements, see section 4.7 of this Target's Statement.

Consolidated statement of profit or loss

	FY2016 $'000	FY2015 $'000
Continuing operations		
Revenue	1,939,479	2,011,156
Other income	6,700	–
Raw materials and consumables	(653,294)	(729,797)
Employment costs	(993,696)	(973,029)
Depreciation and amortisation	(27,007)	(34,049)
Sub-contractor expenses	(90,938)	(160,807)
Rental and occupancy expenses	(33,427)	(51,963)
Communication expenses	(8,222)	(9,587)
Insurance	(10,922)	(10,598)
Plant and equipment expenses	(18,757)	(28,244)
Motor vehicle expenses	(13,642)	(17,416)
Travel	(27,203)	(24,403)
Other expenses	(221,242)	(362,599)
Share of profits of equity accounted interests (net of tax)	14,869	15,068
Operating loss	(137,302)	(376,268)
Finance income	2,768	2,747
Finance costs	(14,409)	(24,842)
Net finance costs	(11,641)	(22,095)
Loss before tax	(148,943)	(398,363)
Income tax benefit	45,819	99,600
Loss from continuing operations	(103,124)	(298,763)
Discontinued operation		
Profit from discontinued operation, net of tax	–	66,390
Loss for the year	(103,124)	(232,373)
Profit attributable to:		
Owners of the Company	(106,272)	(236,396)
Non-controlling interests	3,148	4,023
Loss for the year	(103,124)	(232,373)
Profit attributable to discontinued operations:		
Owners of the Company	–	66,294
Non-controlling interests	–	96
Profit for the year	–	66,390
Earnings per share		
Earnings per share from continuing and discontinued operations	CENTS	CENTS
Basic earnings per share (cents per share)	(65.0)	(142.0)
Diluted earnings per share (cents per share)	(65.0)	(140.0)
Earnings per share from continuing operations		
Basic earnings per share (cents per share)	(65.0)	(181.8)
Diluted earnings per share (cents per share)	(65.0)	(179.3)

Consolidated statement of financial position

	As at 30 June 2016 $'000	As at 30 June 2015 $'000
Current assets		
Cash and cash equivalents	85,840	164,597
Trade and other receivables	195,762	231,062
Inventories	252,102	245,089
Income tax receivable	10,886	21,283
Other financial assets	–	4,589
Total current assets	544,590	666,620
Non-current assets		
Trade and other receivables	816	1,234
Other financial assets	9,850	9,750
Investments accounted for using the equity method	16,557	17,000
Property, plant and equipment	79,255	51,749
Intangible assets	325,638	338,861
Deferred tax assets	206,468	154,019
Total non-current assets	638,584	572,613
Total assets	1,183,174	1,239,233
Current liabilities		
Trade and other payables	413,412	415,891
Loans and borrowings	20,662	13,331
Employee benefits	99,355	91,056
Other financial liabilities	3,940	5,114
Income tax payable	–	952
Provisions	146,437	125,272
Total current liabilities	683,806	651,616
Non-current liabilities		
Loans and borrowings	129,813	117,572
Employee benefits	4,525	5,043
Other financial liabilities	3,279	286
Deferred tax liabilities	1,421	–
Provisions	29,565	29,304
Total non-current liabilities	168,603	152,205
Total liabilities	852,409	803,821
Net assets	330,765	435,412
Equity		
Share capital	422,656	421,293
Reserves	(26,047)	27,109
Retained earnings	(71,402)	34,870
Total equity attributable to owners of the Company	325,207	429,054
Non-controlling interests	5,558	6,358
Total equity	330,765	435,412

Attachment 1 – UGL Historical Financials

Consolidated statement of cash flows

	FY2016 $'000	FY2015 $'000
Cash flows from operating activities		
Cash receipts from customers	2,171,656	2,862,711
Cash payments to suppliers and employees	(2,259,710)	(2,781,114)
Interest received	2,737	3,818
Interest and other costs of finance paid	(11,689)	(31,314)
Distributions from equity accounted investees	15,362	16,938
Income taxes refunded/(paid)	4,584	(6,054)
Net cash (used in)/from operating activities	(77,060)	64,985
Cash flows from investing activities		
Payment for plant and equipment	(11,082)	(17,556)
Proceeds from sale of property, plant and equipment	1,462	5,343
Payments for intangibles	(6,374)	(12,679)
Proceeds from sale of discontinued operation	–	1,087,227
Investment in unlisted company	(100)	–
Investments in associates and joint ventures	(50)	(106)
Net cash (used in)/from investing activities	(16,144)	1,062,229
Cash flows from financing activities		
Return of capital	–	(489,543)
Proceeds from borrowings	165,400	227,472
Repayment of borrowings	(145,593)	(867,839)
Payment of finance lease liabilities	(224)	(1,643)
Proceeds from sale of expired options	1,363	–
Dividends paid to owners	–	(9,991)
Dividends paid to non-controlling interests	(6,337)	(944)
Net cash from/(used in) financing activities	14,569	(1,142,488)
Net decrease in cash and cash equivalents	(78,635)	(15,274)
Cash and cash equivalents at 1 July	164,597	179,230
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies	(122)	641
Cash and cash equivalents at 30 June	85,840	164,597

It is noted that consolidated cash flows for 2015 refer to the results of the UGL Limited consolidated group, including the DTZ businesses sold classified as a discontinued operation.

ATTACHMENT 2

RECONCILIATION OF STATUTORY TO MANAGEMENT FINANCIAL INFORMATION

Attachment 2 – Reconciliation of Statutory to Management Financial Information

Reconciliation of statutory to management financial information

The pro forma statements of financial performance presented in section 4.4(c) are adjusted for certain non-recurring items and include UGL's share of joint venture revenue and costs to allow greater comparability with the Directors' Forecast and better representation of underlying performance of the business. These adjustments are set out in the tables below for FY2015 and FY2016.

FY2015

$m	Management	JV's (Equity method)	Claims resolution & settlement	Resources slowdown	Goodwill impairment	Tender costs written off	Restructure costs	Statutory FY15
Revenue	**2,320.5**	(309.3)						**2,011.1**
EBIT	**(127.5)**	(6.9)	(39.8)	(84.9)	(63.0)	(18.9)	(38.1)	**(379.1)**
Net interest	**(19.3)**							**(19.3)**
Tax	**41.1**	6.9	11.9	22.6	0.0	5.7	11.4	**99.6**
Non-controlling interests	**(3.9)**							**(3.9)**
NPAT	**(109.6)**		(27.8)	(62.4)	(63.0)	(13.2)	(26.7)	**(302.7)**
Profit attributable to discontinued operations								**66.3**
Statutory Loss								**(236.4)**

FY2016

$m	Management	Equity accounted JVs	Statutory FY16
Revenue	2,281.7	(342.2)	**1,939.5**
EBIT	(134.5)	(6.6)	**(141.1)**
Net interest	(8.2)	0.4	**(7.9)**
Tax	39.6	6.2	**45.8**
Non-controlling interests	(3.1)	0.0	**(3.1)**
NPAT	(106.3)	0.0	**(106.3)**

ATTACHMENT 3

INDEPENDENT EXPERT'S REPORT

Attachment 3 – Independent Expert's Report

GRANT SAMUEL

GRANT SAMUEL & ASSOCIATES

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www.grantsamuel.com.au

7 November 2016

The Directors
UGL Limited
Level 10
40 Miller Street
North Sydney NSW 2060

Dear Directors

Offer by CIMIC Group Limited

1 Introduction

On 10 October 2016, CIMIC Group Limited ("CIMIC")[1] announced that it had acquired a 13.84% interest in UGL Limited ("UGL") and that it intended to make an off market, all cash takeover offer for all of the shares in UGL that it did not already own ("the Offer").

CIMIC is a leading international contractor providing construction, mining, mineral processing, engineering, concessions and operations and maintenance services to the infrastructure, resources and property markets. It is headquartered in Sydney and is listed on the Australian Securities Exchange ("ASX") with a market capitalisation of around $9.5 billion. CIMIC's largest shareholder with a 72.68%[2] interest is Frankfurt Stock Exchange listed company HOCHTIEF AG, which, in turn, is 71.72% owned by Madrid Stock Exchange listed company Actividades de Construccion y Servicios S.A.

The consideration under the Offer is $3.15 cash per share ("Offer Price"). The Offer Price has been declared final and therefore, in the absence of a competing proposal, cannot be increased during the offer period.[3]

The Bidder's Statement dated 10 October 2016 was served on UGL on that date and despatched to UGL shareholders on 25 October 2016. The Offer is subject only to a "no prescribed occurrences" condition. CIMIC has appointed Macquarie Securities (Australia) Ltd to stand in the market on the ASX to purchase any UGL shares offered at the Offer Price. As at 4 November 2016, CIMIC has not announced the acquisition of additional shares and, therefore, still has a 13.84% relevant interest in UGL.

CIMIC has advised that if it acquires a relevant interest in 50% or more, but less than 90%, of UGL shares, it intends to:

- conduct a strategic review of UGL's businesses;
- capitalise on any opportunities that may result from increased co-operation between the CIMIC and UGL businesses;
- review the dividend and capital management policies of UGL;
- depending on the level of control secured and the remaining spread and volume of UGL shares, seek the removal of UGL from the ASX;
- reconstitute the UGL board of directors; and
- retain the services of UGL's current operational employees in the ordinary course of operations. In cases where particular roles may no longer be required, CIMIC will attempt to identify alternative employment opportunities within the CIMIC group.

If CIMIC acquires less than 50% of UGL shares, it intends to seek representation on the UGL board commensurate with its shareholding.

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1 Previously named Leighton Holdings Limited.
2 Shareholding percentages as disclosed in the Bidder's Statement.
3 The Offer is currently scheduled to close on 25 November 2016 unless extended or withdrawn.

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The directors of UGL have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Offer is fair and reasonable and to set out the reasons for its opinion. A copy of the report (including this letter) will accompany the Target's Statement to be sent to UGL shareholders. This letter contains a summary of Grant Samuel's opinion and main conclusions.

2 Opinion

In Grant Samuel's opinion, the Offer is fair and reasonable, in the absence of a superior offer.

3 Summary of Conclusions

Grant Samuel has valued UGL in the range $527.8-667.8 million which corresponds to a value of $3.11-3.94 per share. The valuation is summarised below:

UGL – Valuation Summary ($ millions)

	Full Report Section Reference	Value Range	
		Low	High
Business operations	6.3	775.0	825.0
Ichthys Projects	6.5	(175.0)	(100.0)
Other assets and liabilities	6.6	(5.9)	9.1
Enterprise value		**594.1**	**734.1**
Net borrowings	6.7	(66.3)	(66.3)
Value of equity		**527.8**	**667.8**
Fully diluted shares on issue (millions)		169.6[4]	
Value per share		**$3.11**	**$3.94**

The valuation represents the estimated full underlying value of UGL assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect UGL shares to trade on the ASX in the absence of a takeover offer.

The business operations of UGL, excluding the Ichthys Projects[5], have been valued in the range $775-825 million (mid point $800 million). This valuation range:

- represents an overall judgement based on various approaches and methodologies including:
  - valuation of the business as a single enterprise utilising both capitalisation of earnings (primarily EBIT[6] and EBITDA[7]) and a high level discounted cash flow ("DCF") analysis; and
  - a "sum of the parts" valuation estimating values for each of UGL's operating divisions applying the capitalisation of earnings methodology; and
- takes into account the different strengths, weaknesses, market position, track record, inherent risks and outlook for each division. In this context:
  - the track record over the past several years, even leaving aside the Ichthys Projects, has been patchy with weak project management disciplines and several significant restructurings;
  - the sectors in which UGL operates are highly competitive and margins are constantly under pressure. It is challenging to develop clear and sustainable competitive advantages; and
  - UGL is a contracting business and while some divisions enjoy relatively long term contracts with stable earnings, there is a continuing requirement to replenish the pipeline. There are significant longer term contracts facing renewal risk over the next three years (e.g. the Metro Trains Melbourne franchise, Sydney Trains maintenance).

4 Based on 166,511,240 shares on issue (including 3,564,001 treasury shares) and 6,682,833 share rights and performance rights.
5 The Ichthys Projects are two engineering and construction contracts being undertaken as part of the Ichthys LNG Project in Darwin. UGL has provided for losses of $375 million in relation to these projects and they are managed through a separate business division.
6 EBIT is earnings before net interest, tax investment income and significant and non-recurring items.
7 EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

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On the other hand:

- the restructurings and turnarounds have been completed and the new management team has overhauled the project management process. Significant expense was incurred over FY14-FY16[8] but minimal additional costs are anticipated going forward;
- the overall portfolio of businesses provides a considerable diversity of exposure to end market demand profiles (rail, road, defence, oil and gas, mining, water, power and renewable energy generation). The base business has a modest exposure to the resources sector and a high exposure to infrastructure;
- UGL does enjoy a differentiated market position in a number of its divisions, such as Asset Services (employed shutdown workforce), Technology Systems (full service offering across electrical, mechanical and communications) and some parts of the E&C business (water). In others, it has a strong reputation and solid customer relationships; and
- the outlook is positive across several of the divisions with significant contracts coming on stream and other opportunities in the short to medium term:
  - Rail & Defence: New Intercity Fleet maintenance and Metro Trains Sydney;
  - Asset Services: new or extended contracts with Stanwell Corporation, Quadrant Energy, Alcoa and BHP Billiton as well as increased LNG shutdown and turnaround activity;
  - Technology Systems: ramp up of Sydney Metro Northwest and NorthConnex Motorway and numerous rail and road projects that are underway or planned;
  - E&C: new solar projects and grid connections; and
  - UGL Asia: extension of Asset Services activities in oil and gas to Asia.

The value attributed to the business operations of $775-825 million represents overall multiples of 8.5-9.0 times FY17 EBIT and 7.2-7.7 times FY17 EBITDA adjusted for potential head office cost savings available to an acquirer. In Grant Samuel's opinion, these multiples are appropriate for a business with UGL's characteristics in a change of control transaction where shareholders will effectively forgo all future growth potential. The multiples of 8.5-9.0 times forecast earnings are above the level observed in most acquisitions in the sector over the past five years but there are reasons why UGL warrants some premium.

However, the value of the equity in UGL is a more vexed issue. In short, the significant uncertainty attached to the final outcome of the Ichthys Projects means that, in reality, the equity value of UGL cannot be determined with any precision. The complete range of outcomes for these projects is extremely wide. The current UGL estimate, reflecting the provisions included in the FY16 results, is for a negative cash outflow of $183 million over FY17 to FY19. On the downside, there could be additional unanticipated and unrecovered costs incurred. An unrecovered 10% overspend on the remaining costs (across both projects) would increase UGL's cash outflows by approximately $30-40 million. Certainly, the history of these projects does not inspire confidence but there are a number of factors which suggest that the cost overrun risk has diminished. On the other hand, the current estimates make limited allowance for potential claims recoveries. UGL and its partners have lodged significant claims in addition to previous settlements. While they are almost certain not to succeed with all of their claims, it is reasonable to believe that they will realise at least some of them.

It would not be helpful for shareholders to incorporate the full gamut of potential outcomes for the Ichthys Projects. For the purposes of this report, Grant Samuel has adopted a value range of $(175)-(100) million. The low end represents the net present value of the current forecast cash outflows while the high end assumes a degree of success with claims. Obviously, the final outcome could be materially better or worse and shareholders could legitimately take a materially different view.

The equity value range of $3.11-3.94 per share does imply a very significant premium (45-84%) over the share price prevailing prior to the Offer. However, market perceptions of value are likely to have been clouded by the events surrounding the Ichthys Projects. The additional provisioning of $200 million flagged on 6 June 2016 was significant in its own right and would have shaken market confidence in the

[8] FYXX = financial year end 30 June 20XX.

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company. Apart from the risks of further cost overruns on those projects, there were concerns about the balance sheet impact and the possibility of a capital raising. The continued absence of a dividend would also have adversely impacted the share price. In addition, the share price does not reflect the costs savings and other synergies available to an acquirer of 100% of UGL.

As the Offer Price of $3.15 falls within the value range, the Offer is fair. As it is fair, the Offer is also reasonable. In any event, there are a number of factors that support reasonableness.

The issues relating to the Ichthys Projects in particular create a risk perspective that impacts on a shareholder's decision regarding the Offer. The outcome of the Ichthys Projects is fundamentally uncertain at this point in time. Grant Samuel has taken a view but it is open for shareholders to adopt a different approach. If additional unrecovered costs (net of any further claims success) are assumed, the value range would reduce further (every $10 million represents 6 cents per share). Shareholders with a low risk appetite will find the certainty of $3.15 in cash attractive in these circumstances, particularly having regard to:

- the inherent difficulties of estimating project costs where the project is afflicted by delays, procurement issues and scheduling challenges;
- the extent of the premium that it represents over the share price prevailing prior to announcement of the Offer (47% above the closing price on 7 October 2016);
- the relatively high net debt position anticipated for UGL by the end of FY17 ($174-214 million); and
- the likely absence of dividends for some years.

On the other hand, the Offer Price is only just above the bottom of the value range. Any assumption as to even a very modest level of success with future claims from the Ichthys Projects (say, $10 million) would lift the bottom of the range above the Offer Price. Those shareholders with a stronger appetite for risk may put more emphasis on:

- the upside potential from the claims relating to the Ichthys Projects;
- the scope for re-rating of UGL shares once the Ichthys Projects have been closed out and the market can focus on the base business;
- the upside potential from the high level of contract opportunities available over the next few years; and
- the potential for synergies that CIMIC may be able to bring to the UGL business (as flagged in its Bidder's Statement) if it succeeds in securing more than 50% of UGL.

Such shareholders may be justified in not accepting the Offer and the unconditional nature of the Offer means that individual shareholders can make this choice without impacting on other shareholders. However, non accepting shareholders need to recognise that:

- the share price is likely to trade initially below $3.15 in the absence of an offer;
- corporate cost savings will not be available if UGL remains a separate listed company;
- if CIMIC acquires more than 50% of UGL:
  - there are risks to a number of contracts through "change of control" clauses that could have an adverse impact on future profitability; and
  - a review event will occur under existing borrowing facilities and, if financial close has occurred, the new borrowing facilities; and
- there would be an adverse impact on liquidity if CIMIC was to increase its shareholding materially prior to the Offer closing. In a worst case scenario, if UGL fails to meet the necessary shareholder spread tests, it could be removed from the ASX. In these circumstances, remaining shareholders should carefully consider their position.

CIMIC has only a 13.8% shareholding. Accordingly, there is currently no impediment to an alternative party coming forward with a superior offer. UGL has been "in play" since 10 October 2016 and it may be

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some time before CIMIC increases its shareholding to a level that effectively blocks out a competing bidder, if this ever occurs. Accordingly, there should be ample time for a competing proposal to be developed. If no superior offer emerges over this period, then it would be reasonable to assume that the Offer represents the maximum value at this point in time.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual UGL shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Bidder's Statement issued by CIMIC and the Target's Statement issued by UGL.

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Offer, the responsibility for which lies with the directors of UGL. In any event, the decision whether to accept the Offer is a matter for individual shareholders, based on their own views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Offer should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in UGL. This is an investment decision upon which Grant Samuel does not offer an opinion and independent of a decision on whether to accept or reject the Offer. Shareholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates

Financial Services Guide
and
Independent Expert's Report
in relation to the takeover offer by
CIMIC Group Limited

Grant Samuel & Associates Pty Limited
(ABN 28 050 036 372)

7 November 2016

Attachment 3 – Independent Expert's Report

GRANT SAMUEL

GRANT SAMUEL & ASSOCIATES

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Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for UGL Limited ("UGL") in relation to a takeover offer by CIMIC Group Limited ("the UGL Report"), Grant Samuel will receive a fixed fee of $595,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 8.3 of the UGL Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the UGL Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 8.3 of the UGL Report:

> *Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with UGL or CIMIC or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Offer.*
>
> *Grant Samuel had no part in the formulation of the Offer. Its only role has been the preparation of this report.*
>
> *Grant Samuel will receive a fixed fee of $595,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Offer. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.*
>
> *Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the UGL Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the UGL Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

GRANT SAMUEL

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1 Details of the Offer

On 10 October 2016, CIMIC Group Limited ("CIMIC")[1] announced that, through a wholly owned subsidiary CIMIC Group Investments No.2 Pty Limited ("CGI2"), it owned a 13.84% interest in UGL Limited ("UGL") and that, through CGI2, it intended to make an off market, all cash takeover offer for all of the shares in UGL that it did not already own ("the Offer").

CIMIC is a leading international contractor providing construction, mining, mineral processing, engineering, concessions and operations and maintenance services to the infrastructure, resources and property markets. It is headquartered in Sydney and is listed on the Australian Securities Exchange ("ASX") with a market capitalisation of around $9.5 billion. CIMIC's largest shareholder with a 72.68% interest is Frankfurt Stock Exchange listed company HOCHTIEF AG, which, in turn, is 71.72% owned by Madrid Stock Exchange listed company Actividades de Construccion y Servicios S.A.[2]

The consideration under the Offer is $3.15 cash per share ("Offer Price"). The Offer Price will be reduced by the value of any dividends or capital distributions declared or paid by UGL after 10 October 2016 and before the close of the offer period[3] (but not by the amount of any franking credits attached to any such dividends). The Offer Price has been declared final and therefore, in the absence of a competing proposal, cannot be increased during the offer period.

CGI2's Bidder's Statement dated 10 October 2016 was served on UGL on that date and despatched to UGL shareholders on 25 October 2016.

The Offer is subject only to a "no prescribed occurrences" condition (i.e. none of the events or occurrences set out in Sections 652C(1) and 652C(2) of the Corporations Act, 2001 ("Corporations Act") occurring). CGI2 has therefore exercised its rights under item 2 of Section 611 of the Corporations Act and appointed Macquarie Securities (Australia) Ltd to stand in the market on the ASX to purchase, on CGI2's behalf, any UGL shares offered at the Offer Price.

As at 4 November 2016, CIMIC had not announced the acquisition of additional shares and therefore still had a 13.84% relevant interest in UGL.

CIMIC has advised that, if CGI2 acquires a relevant interest in 50% or more, but less than 90%, of UGL shares, it intends to:

- conduct a strategic review of UGL's businesses;
- capitalise on any opportunities that may result from increased cooperation between the CIMIC and UGL businesses;
- review the dividend and capital management policies of UGL;
- depending on the level of control secured by CGI2 and the remaining spread and volume of UGL shares, seek the removal of UGL from the ASX;
- reconstitute the UGL board of directors; and
- retain the services of UGL's current operational employees in the ordinary course of operations. In cases where particular roles may no longer be required, CIMIC will attempt to identify alternative employment opportunities within the CIMIC group.

If CGI2 acquires less than 50% of UGL shares, CIMIC intends to seek representation on the UGL board commensurate with its shareholding with a view to gaining a more detailed understanding of UGL's corporate structure, strategies, governance, assets, businesses, personnel and operations. It may also seek implementation of certain of the intentions outlined above.

1 Previously named Leighton Holdings Limited.
2 Shareholding percentages as disclosed in the Bidder's Statement.
3 The Offer is currently scheduled to close on 25 November 2016 unless extended or withdrawn.

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2 Scope of the Report

2.1 Purpose of the Report

Although there is no requirement in the present circumstances for an independent expert's report pursuant to the Corporations Act or the ASX Listing Rules, the directors of UGL have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Offer is fair and reasonable and to state reasons for that opinion. A copy of the report is to accompany the Target's Statement to be despatched to shareholders by UGL in relation to the Offer.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual UGL shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Bidder's Statement issued by CIMIC and the Target's Statement issued by UGL in relation to the Offer.

Whether or not to accept the Offer is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Offer should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in UGL. This is an investment decision upon which Grant Samuel does not offer an opinion and independent of a decision on whether to accept the Offer. Shareholders should consult their own professional adviser in this regard.

2.2 Basis of Evaluation

The term "fair and reasonable" has no legal definition although over time a commonly accepted interpretation has evolved. However, the Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 ("RG111") which establishes guidelines in respect of independent expert's reports. RG111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable".

Fairness involves a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. For this comparison, value is determined assuming 100% ownership of the target and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer such as:

- the offeror's existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target company's shares.

An offer could be considered "reasonable" if there were valid reasons to accept the offer notwithstanding that it was not "fair".

Fairness is a more demanding criteria. A "fair" offer will always be "reasonable" but a "reasonable" offer will not necessarily be "fair". A fair offer is one that reflects the full market value of a company's businesses and assets. An offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the offer price.

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This is commonly the case where the bidder already controls the target company. In that situation the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

Grant Samuel has determined whether the Offer is fair by comparing the estimated underlying value range of UGL with the offer price. The Offer will be fair if it falls within or exceeds the estimated underlying value range. In considering whether the Offer is reasonable, the factors that have been considered include:

- the existing shareholding structure of UGL, including CIMIC's shareholding;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of UGL shares in the absence of the Offer; and
- other advantages and disadvantages for UGL shareholders of accepting the Offer.

2.3 Sources of Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Bidder's Statement dated 10 October 2016 issued by CGI2 in relation to the Offer;
- annual reports of UGL for the six years ended 30 June 2016;
- press releases, public announcements, media and analyst presentation material and other public filings by UGL including information available on its website;
- brokers' reports and recent press articles on UGL and other companies engaged in the engineering, asset management and maintenance services sectors; and
- sharemarket data and related information on Australian and international listed companies engaged in the engineering, asset management and maintenance services sectors and on acquisitions of companies and businesses in those sectors.

Non Public Information provided by UGL

- management accounts for UGL for the three months to 30 September 2016;
- budget for FY17[4] ("FY17 Budget") and business plan to 30 June 2020 ("Business Plan") prepared by UGL management; and
- other confidential documents, board papers, presentations and working papers.

In preparing this report, Grant Samuel held discussions with, and obtained information from, senior management of UGL and its advisers.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

[4] FYXX = financial year end 30 June 20XX.

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This report is also based upon financial and other information provided by UGL and its advisers. Grant Samuel has considered and relied upon this information. UGL has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Offer is fair and reasonable to UGL shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of UGL. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included:

- the FY17 Budget prepared by management and adopted by the directors of UGL; and
- the Business Plan for the four years ending 30 June 2020 prepared by management and endorsed by the directors of UGL.

UGL is responsible for the information contained in the FY17 Budget and the Business Plan ("the forward looking information"). Grant Samuel has considered and, to the extent deemed appropriate, relied on this information for the purposes of its analysis in particular the FY17 Budget. The major assumptions underlying the forward looking information were reviewed by Grant Samuel in the context of current economic, financial and other conditions. It should be noted that the forward looking information and the underlying assumptions have not been reviewed (nor is there a statutory or regulatory requirement for such a review) by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions.

Subject to these limitations, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the FY17 Budget has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors into account that:

- the FY17 Budget has been adopted by the Directors of UGL;
- UGL has sophisticated management and financial reporting processes. The FY17 Budget has been prepared through a detailed budgeting process involving preparation of "ground up" forecasts by the management and is subject to ongoing analysis and revision to reflect the impact of actual performance or assessments of likely future performance; and
- senior management has advised that the overall performance of UGL in the first three months of FY17 is consistent with the FY17 Budget.

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GRANT SAMUEL

UGL has previously made guidance statements about revenue and EBIT[5] for FY17. The directors of UGL have included a proportionally consolidated forecast for FY17 ("FY17 Forecast") together with certain cash flow information for FY17 in the Target's Statement. The FY17 Forecast remains in line with the FY17 Budget.

The UGL directors have decided not to include divisional earnings for FY17 or the Business Plan in the Target's Statement and therefore this information has not been disclosed in this report. To provide an indication of the expected financial performance of UGL's business divisions, Grant Samuel considered brokers' forecasts for UGL. However, while on a group basis, the median of the brokers' forecasts is consistent with the FY17 Forecast, this is not the case for individual divisions. The lack of consistency between the FY17 Forecast and the median of the brokers' forecasts for the divisions is not unexpected given that UGL restructured the reporting of its business divisions in FY15.

Grant Samuel has no reason to believe that the forward looking information reflects any material bias, either positive or negative. However, the achievability of the forward looking information is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

As part of its analysis, Grant Samuel has undertaken discounted cash flow ("DCF") analysis that involved reviewing the sensitivity of net present values to changes in key variables. The DCF analysis isolates a limited number of assumptions and shows the impact of variations to those assumptions. No opinion is expressed as to the probability or otherwise of those variations occurring. Actual variations may be greater or less than those modelled. In addition to not representing best and worst outcomes, the DCF analysis does not, and does not purport to, show the impact of all possible variations to the business model. The actual performance of the business may be negatively or positively impacted by a range of factors including, but not limited to:

- changes to the assumptions other than those considered in the DCF analysis;
- greater or lesser variations to the assumptions considered in the DCF analysis than those modelled; and
- combinations of different variations to a number of different assumptions that may produce outcomes different to the combinations modelled.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Bidder's Statement and the Target's Statement is complete, accurate and fairly presented in all material respects; and
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

5 UGL defines EBIT as earnings before net interest and tax. That is, after depreciation and amortisation but including share of profits of equity accounted investees and significant and non-recurring items.

GRANT SAMUEL

3 Profile of UGL

3.1 Background

UGL was established as an engineering and construction business in Western Australia in 1970. Over the next 20 years, its operations expanded but remained focused on the resources sector in Western Australia. It became known as United Construction Group Limited in 1988 and was listed on the ASX in December 1994 with revenue of around $160 million.

Following listing, UGL grew both organically and by acquisition to become a national engineering business. It sought to reduce reliance on the construction and engineering sectors by becoming a diversified services company with a focus on long term contracts. To this end, it changed its name to United Group Limited, made a number of acquisitions (including engineering, construction and facilities management company Kilpatrick Green in 1998 and rail specialist Goninan Ltd in 1999) and expanded activities beyond the Australian and New Zealand markets. In the five years to 2007, UGL made in excess of 10 acquisitions (including real estate services companies in Singapore and North America) and by 2008 it was generating global revenue of around $3.5 billion.

Due to uncertainties resulting from the global financial crisis of 2007/2008, over the next three years UGL's focus was directed to strengthening its businesses and maintaining a strong order book. It changed its name to UGL in 2009. With the December 2011 acquisition of United Kingdom based DTZ Holdings plc, UGL's property services business (rebranded "DTZ") became a global leader in the sector.

Difficult trading conditions in 2012 and 2013 impacted the operating performance of UGL's engineering business. It implemented restructuring and repositioning initiatives to strengthen the business and, in March 2013, announced that following the significant growth of DTZ it would conduct a review to consider the optimal corporate structure. In May 2013, its share price fell sharply following a downgrade to FY13 earnings guidance on the back of the continued economic slowdown, cost management initiatives by the major miners and project underperformance.

In August 2013, UGL announced the demerger of DTZ with the transaction expected to be completed in FY15. However, on 16 June 2014 it announced that it had entered into a binding agreement to sell DTZ to a consortium for an enterprise value of $1.215 billion. The sale was completed on 6 November 2014 and following repayment of debt, UGL distributed surplus net sale proceeds of around $500 million ($3.00 per share) to shareholders in the form of an unfranked dividend of $0.06 per share and a capital return of $2.94 per share.

Since the divestment of DTZ, UGL has refocussed as a dedicated engineering, construction and maintenance service provider. During FY15 it reset the business (including implementing new initiatives, restructuring divisional and corporate overheads and focusing on effective risk management) and in FY16 experienced a turnaround in financial and operational performance across the business. However, UGL has also been dealing with the consequences of significant increases in the project costs associated with the CCPP and SMP Projects in Darwin (collectively referred to as "the Ichthys Projects" in this report) and raised a $175 million provision at 31 December 2014 and a further $200 million provision at 30 June 2016. These projects will impact UGL's cash position over the FY17-FY19 period and therefore are being accounted for as a separate reporting segment. These projects are described in Section 5.6 of this report.

UGL is headquartered in Sydney and had a market capitalisation of around $360 million prior to announcement of the Offer.

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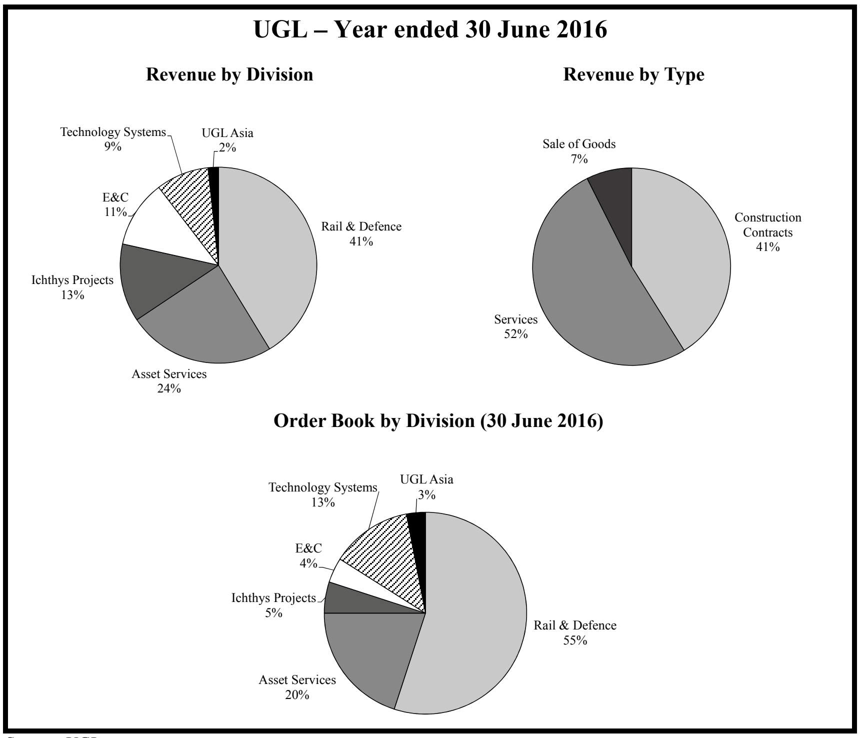
3.2 Business Operations

UGL is a provider of engineering, construction and maintenance services to a diversified end market in Australia, New Zealand and South East Asia. It employs around 10,000 people (including subcontractors) across six divisions, Rail & Defence, Asset Services, Technology Systems, Engineering & Construction ("E&C"), UGL Asia and the Ichthys Projects.

During FY16, UGL generated $2.3 billion of revenue (including its share of revenue from equity accounted investees) of which over 97% was derived from customers based in Australia. At 30 June 2016, UGL had a $4.8 billion order book ($1.9 billion relating to FY17) and a further $5.0 billion in preferred opportunities and existing contracts with renewal or extension options:



Source: UGL

During FY16, UGL commenced the rollout of the "UGL Way" program across the business. This program is intended to simplify UGL's businesses processes and ensure that activities occur on a consistent basis across the company in accordance with best practice governance frameworks. It involves an online platform which leverages mobile technology and UGL's existing information technology system.

UGL's operating divisions are described, and their financial performance discussed, in Section 5 of this report.

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3.3 Financial Performance

Set out below is a summary of the statutory financial performance of UGL for the five years ended 30 June 2016 and the FY17 Forecast. As a result of the sale agreement entered into in June 2014, UGL reported DTZ as a discontinued operation in FY14 and the FY13 results were restated on that basis:

UGL – Financial Performance (statutory) ($ millions)							
	Year end 30 June						
	2012 actual	2013 actual	2013 restated[6]	2014 actual	2015 actual	2016 actual	2017 forecast[7]
Revenue (statutory)							
- Construction contracts	1,840.3	1,054.1	1,054.1	864.0	1,027.4	937.8	
- Services	2,526.8	2,686.6	773.3	861.6	917.3	959.4	
- Sale of goods	87.3	75.4	75.4	93.6	66.4	42.3	
Total	**4,454.4**	**3,816.1**	**1,902.8**	**1,819.3**	**2,011.2**	**1,939.5**	
EBITDA (statutory)[8]	**265.9**	**143.4**	**55.8**	**64.9**	**(345.0)**	**(114.1)**	**115.8**
Depreciation and amortisation[9]	(63.3)	(71.6)	(39.9)	(25.7)	(34.0)	(27.0)	(24.2)
EBIT (statutory)[10]	**202.6**	**71.8**	**15.9**	**39.2**	**(379.1)**	**(141.1)**	**91.6**
Net interest expense	(24.8)	(32.6)	(12.8)	(14.9)	(19.3)	(7.9)	(15.9)
Operating profit before tax	**177.8**	**39.2**	**3.1**	**24.3**	**(398.4)**	**(149.0)**	**75.7**
Income tax (expense)/benefit	(42.4)	2.6	10.0	7.5	99.6	45.8	(24.2)
NPAT[11] from continuing operations	**135.4**	**41.8**	**13.1**	**31.8**	**(298.8)**	**(103.2)**	**51.5**
Profits from discontinued operations (DTZ)	-	-	28.1	36.7	66.4[12]	-	-
Outside equity interests[13]	(1.1)	(5.3)	(5.3)	(6.4)	(4.0)	(3.1)	(3.0)
NPAT attributable to UGL shareholders	**134.3**	**36.5**	**35.9**	**62.1**	**(236.4)**	**(106.3)**	**48.5**
Statistics							
Basic earnings per share	*80.8¢*	*21.9¢*	*21.6¢*	*37.3¢*	*(142.0)¢*	*(65.0)¢*	*29.1¢*
Dividends per share	*70.0¢*	*39.0¢*	*39.0¢*	-	-[14]	-	
Amount of dividend franked	*100%*	*~44%*	*~44%*				

Source: UGL and Grant Samuel analysis

The payment of regular dividends was suspended in FY14 to maintain UGL's cash position ahead of the proposed demerger of DTZ and due to the downturn in activity. Following the sale of DTZ, surplus net sale proceeds of $3.00 per share were distributed to shareholders in FY15 due to the cash flow obligations associated with the Ichthys Projects no dividends were paid in FY16. Reinstatement of dividends will be considered when underlying earnings have normalised and payment is considered appropriate in the context of UGL's capital requirements and outlook.

The statutory presentation makes analysis of UGL's operating performance difficult. UGL also reports earnings which are adjusted to:

- reflect its share of operating earnings from equity accounted investees; and
- to exclude significant items (except for the provisions made in relation to the Ichthys Projects which are accounted for as a separate reporting segment)[15].

6 Restated to recognise DTZ as a discontinued operation.
7 The FY17 Forecast has been prepared on a proportional basis. It includes UGL's share of revenue, earnings, interest and tax of equity accounted investees (i.e. not a statutory basis).
8 EBITDA (statutory) is earnings before net interest, tax and depreciation and amortisation. That is, earnings including share of profits of equity accounted investees and significant and non-recurring items.
9 Prior to the sale of DTZ, depreciation and amortisation included amortisation of acquired customer contracts.
10 EBIT (statutory) is earnings before net interest and tax. That is, earnings after depreciation and amortisation but including share of profits of equity accounted investees and significant and non-recurring items.
11 NPAT is net profit after tax.
12 Including a $48.9 million profit on sale of DTZ.
13 Since the sale of DTZ, outside equity interests primarily relate to a 30% interest in Unipart Rail Services Pty Limited.
14 Excluding distribution to shareholders from proceeds of sale of DTZ.

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Furthermore, the organisational restructure and changes to segment reporting following the sale of DTZ, means that meaningful operating results are only available for UGL since FY13. Therefore, the discussion of UGL's operating performance in this report focusses on earnings since FY13.

Set out below is a reconciliation of statutory revenue and EBIT to proportionally consolidated revenue and EBIT reported by UGL for the period FY14 to FY16 together with the FY17 Forecast. However, while proportional EBIT excludes significant one-off items it is still distorted by the impact of the Ichthys Projects. Therefore, Grant Samuel has also adjusted UGL's proportional financial performance to exclude the impact of the Ichthys Projects to present UGL's base business:

UGL – Financial Performance (proportional) ($ millions)				
	Year end 30 June			
	2014 actual	2015 actual	2016 actual	2017 forecast[7]
Revenue				
Statutory	**1,819.3**	**2,011.2**	**1,939.5**	
Add: Share of revenue of equity accounted investees	442.4	309.3	342.2	
Proportional	**2,261.7**	**2,320.5**	**2,281.7**	**2,681.3**
Less: Ichthys Projects	(63.1)	(128.6)	(295.3)	(368.2)
Proportional UGL base business	**2,198.6**	**2,191.9**	**1,986.4**	**2,313.0**
EBIT				
Statutory	**39.2**	**(379.1)**	**(141.1)**	**91.6**
Add: Share of interest and tax of equity accounted investees	5.5	6.9	6.6	
Add: Other significant items (net)[15]	17.2	244.7	-	
Proportional	**61.9**	**(127.5)**	**(134.5)**	**91.6**
Add: Ichthys Projects	-	175.0	200.0	-
Proportional UGL base business	**61.9**	**47.5**	**65.5**	**91.6**
Statistics				
Revenue growth		*(0.3%)*	*(9.4%)*	*16.4%*
EBIT growth		*(23.3%)*	*37.9%*	*39.8%*
EBIT margin	*2.8%*	*2.2%*	*3.3%*	*4.0%*

Source: UGL and Grant Samuel analysis

The operating performance of UGL's base business was impacted by difficult trading conditions in the FY12-FY14 period. In June 2014, UGL announced the appointment of a new Managing Director and CEO effective 24 November 2014. As a consequence, following completion of the sale of DTZ, FY15 was a year of transition as new senior management reset the business and in FY16 there was improved financial and operational performance.

UGL capitalises tender costs to secure contracts only when it is probable that the contract will be obtained (based on UGL being the preferred bidder). That is, costs incurred prior to UGL becoming the preferred bidder for a contract are expensed in the year incurred. Therefore, earnings of operating divisions can be impacted in periods when tendering activity is high (e.g. currently in Technology Systems).

While the FY16 turnaround can be observed on a consolidated basis (as above), underlying performance is better understood by examining the performance of each of UGL's divisions. In Appendix 1, Grant Samuel has adjusted reported proportional earnings by division to exclude restructuring costs and a foreign exchange hedge gain that were reported in FY16 at a divisional level and corporate level, respectively. The operating performance of each of UGL's divisions based on this analysis is discussed in Section 5 of this report.

The FY17 Forecast (including underlying assumptions) is set out in Section 4.4 of the Target's Statement. The FY17 Forecast remains in line with the FY17 Budget and has been prepared by UGL management. In summary the FY17 Forecast shows:

15 See Appendix 1 for a breakdown of other significant items (net) reported by UGL.

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- growth in proportional revenue of 16.4%;
- growth in proportional EBIT of 39.8%; and
- an EBIT margin of 4% compared to a 3.3% margin in FY16.

Based on this operating performance and no margin from the Ichthys Projects, UGL is forecast to generate NPAT attributable to UGL shareholders of $48.5 million (29.1 cents per share).

The FY17 Forecast makes no allowance for costs associated with responding to the Offer.

3.4 Financial Position

The financial position of UGL as at 30 June 2016 is summarised below:

UGL – Financial Position ($ millions)	
	As at 30 June 2016 actual
Trade and other receivables and prepayments	206.6
Inventories	252.1
Trade and other payables and provisions	(531.5)
Net working capital	**(72.8)**
Property, plant and equipment (net)	79.3
Goodwill	295.8
Other intangible assets (net)	29.8
Equity accounted associates and joint ventures	16.6
Loan to Metro Trains Melbourne Pty Limited	9.8
Deferred tax assets (net)	205.0
Provision for the Ichthys Projects	(128.7)
Restructure provision	(8.1)
Onerous leases provision	(12.7)
Foreign currency forward contracts (borrowings)	(2.0)
Other non-current provisions	(13.1)
Other assets and liabilities (net)	(3.4)
Total funds employed	**395.5**
Cash and deposits	85.8
Loans and borrowings	(150.5)
Net borrowings	**(64.7)**
Net assets	**330.8**
Outside equity interests	(5.6)[16]
Equity attributable to UGL shareholders	**325.2**
Statistics	
Shares on issue at period end (million)	*166.5*
Net assets per share	*$1.99*
NTA[17] per share	*$0.03*
Gearing (net borrowings/equity plus net borrowings)	*16.6%*

Source: UGL and Grant Samuel analysis

Property, plant and equipment (net) comprises freehold land and buildings ($1.1 million), plant and equipment ($73.7 million) and leasehold improvements ($4.5 million).

Goodwill relates to the acquisition of businesses and is allocated to divisions as follows: Rail & Defence ($134.6 million), Asset Services ($55.2 million), Technology Systems ($35.3 million) and E&C ($70.7 million). Other intangible assets (net) include tender costs ($5.7 million), software

[16] Outside equity interests represents Unipart Rail Limited's 30% interest in UGL Unipart Rail Services Pty Limited ("UGL Unipart"), an incorporated joint venture in the Rail & Defence division (see Section 5.1).

[17] NTA is net tangible assets, which is calculated as net assets less goodwill and other intangible assets (net).

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($16.3 million), development costs ($7.4 million) and other intangible assets ($0.4 million). These assets are amortised on a straight line basis over their estimated useful lives.

Equity accounted associates and joint ventures ($16.6 million) are summarised below:

UGL – Equity Accounted Associates and Joint Ventures			
	Interest	Divisions	$ millions
Associates			
Metro Trains Melbourne Pty Limited	20%	Rail & Defence	13.7
Metro Trains Sydney Pty Limited	20%	Rail & Defence	-
			13.7
Joint Ventures			
Naval Ship Management (Australia) Pty Ltd	50%	Rail & Defence	2.4
Australian Terminal Operations Management Pty Limited	50%	Asset Services	0.5
			2.9
Total			**16.6**

Source: UGL

UGL's share of earnings of these equity accounted investees is allowed for in the proportionally consolidated earnings (see Section 3.3). The carrying value for each investee represents the historical cost of UGL's investment adjusted for profits and dividends over time.

The loan to Metro Trains Melbourne Pty Limited ($9.8 million) has been made on normal commercial terms, is interest bearing and is repayable at the end of the initial franchise term (unless otherwise agreed).

The provision for the Ichthys Projects of $128.7 million represents the remaining balance of the aggregate expected loss on the projects (calculated on a percentage completion basis).

Other non-current provisions ($13.1 million) includes provisions arising in the normal course of business for warranty, workers' compensation and public liability, make good and other. The restructure provision ($8.1 million) is the balance remaining of the provision created during FY15 and FY16 following the sale of DTZ and is expected to fully utilised during FY17. The onerous leases provision ($12.7 million) relates to lease obligations where the cost of those obligations exceeds the economic benefits to be received from the lease contracts. The onerous leases resulted from restructuring initiatives.

Other non-current liabilities (net) include equity securities at cost, foreign currency forward contracts and lease liabilities and incentives. Foreign currency forward contracts relating to UGL's borrowings have been separately identified.

UGL monitors capital on the basis of a gearing ratio of up to 40% (gearing was 16.6% at 30 June 2016). Net borrowings consist principally of bank loans as follows:

UGL – Net Borrowings at 30 June 2016 ($ millions)			
Facility	**Facility Size**	**Amount Drawn**	**Term/Maturity**
Bank loans (unsecured)	313.3[18]	116.7	Various (July 2016 -Aug 2019)
US notes (unsecured)	33.7[19]	33.7	Sept 2016, June 2018, Sept 2018
Finance lease liabilities (secured)	0.1	0.1	June 2016
Total interest bearing liabilities	**347.1**	**150.5**	
Cash and deposits		(85.8)	
Net borrowings		**64.7**	

Source: UGL

18 A $60 million loan facility matured undrawn in July 2016.

19 US$25 million raised in the United States private placement market in three tranches. One tranche of notes matured and were repaid in September 2016.

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In addition, at 30 June 2016 UGL had:

- $470.7 million in unsecured bank guarantee and/or letter of credit facilities provided by several financial institutions of which $273.5 million had been utilised; and
- $67.4 million in unsecured bond facilities provided by surety entities, all of which had been utilised.

UGL is currently in the process of refinancing these facilities.

At 30 June 2016, UGL disclosed the following contingent liabilities:

- under certain joint venture agreements, UGL entities are jointly liable for all liabilities incurred by the joint ventures/joint operations. At 30 June 2016, with the exception of the Ichthys Projects which have been provided for, the assets of the joint ventures exceed such liabilities;
- in the normal course of business, UGL entities may incur contractors' and product liability or be subject to legal actions. The business carries professional indemnity insurance and, where appropriate, raises provisions. However, the outcome may be different to that estimated; and
- UGL is a defendant in a shareholder class action commenced in April 2015 in the Supreme Court of Victoria concerning disclosures made in relation to the Ichthys CCPP Project. UGL has been successful in having parts of the claim struck out and is seeking to have the proceedings permanently stayed.

In addition:

- on 28 September 2016, IMF Bentham announced that a conditional proposal to fund a shareholder class action in relation to disclosures by UGL in relation to the Ichthys CCPP Project. If it proceeds, the proposed action is to be run by Slater & Gordon lawyers in Melbourne. Proceedings have not been commenced; and
- under the DTZ sale agreement an escrow account was set up to make funds available to the purchasers to recover costs and losses associated with certain incurred but not reported (prior to the transaction date) professional indemnity claims against DTZ. The escrow period expires on 5 December 2017. The balance in the account at 18 October 2016 was £19.5 million. Due to the lack of certainty, as there are claims on foot, no amount is presently recognised on UGL's balance sheet for this account.

Under the Australian tax consolidation regime, UGL and its wholly owned Australian resident entities have elected to be taxed as a single entity. At 30 June 2016, UGL had carried forward income tax losses of approximately $385 million ($113.2 million tax shield), of which $366 million were recognised in the balance sheet. The recognised losses primarily comprise Australian losses (94% of the balance) with the balance in New Zealand and Hong Kong. The Australian losses primarily arise from restructuring costs (particularly in FY15) and the Ichthys Projects. UGL expects the existing provisions on the Ichthys Projects to convert into income tax losses in FY17 as the provisions are utilised. As a consequence, UGL does not expect to pay Australian income tax for around seven years. UGL has no carried forward Australian capital losses and $3.2 million of accumulated franking credits.

3.5 Cash Flow

UGL's cash flow for the four years ended 30 June 2016 is summarised below. Net borrowings reduced materially in FY15 following the sale of DTZ (moving to a net cash position). However, operating cash flow from the turnaround in the base business in FY16 (around $79 million) was more than offset by the cash outflow relating to the Ichthys Projects ($183 million):

UGL – Cash Flow ($ millions)

	Year end 30 June				
	2013 restated	2014 actual	2015 actual	2016 actual	2017 forecast[7]
EBITDA (statutory) (see Section 3.3)	**55.8**	**64.9**	**(345.0)**	**(114.1)**	**115.8**
Significant items (net) included in EBITDA (statutory)	10.0	19.1	419.7	200.0	
Profit of equity accounted investees in EBITDA (statutory)	(1.4)	(12.0)	(15.1)	(14.9)	
Cash flow in relation to Ichthys Projects	-	-	-	(183.1)	(184.5)
Changes in working capital and other adjustments	45.9	14.8	(13.1)	23.9	(12.7)
Capital expenditure (net)	(77.9)	(7.9)	(24.9)	(16.0)	(22.1)
Operating cash flow	**32.4**	**78.9**	**21.7**	**(104.2)**	**(103.5)**[20]
Tax paid	(33.8)	(9.5)	(6.1)	4.6	
Net interest paid	(32.3)	(37.0)	(27.5)	(9.0)	
Net dividends received/(paid)	(106.0)	11.1	6.0	9.0	
Purchase of investments	(5.4)	(20.9)	(0.1)	(0.2)	
Proceeds from the sale of DTZ	-	-	1,087.2	-	
Capital return to shareholders	-	-	(489.5)	-	
Other	(0.2)	-	-	1.5	
Net cash generated (used)	**(145.3)**	**22.6**	**591.7**	**(98.3)**	
Net cash (borrowings) – opening	*(435.3)*	*(580.6)*	*(558.0)*	*33.7*	
Net cash (borrowings) – closing	*(580.6)*	*(558.0)*	*33.7*	*(64.6)*	

Source: UGL and Grant Samuel analysis

FY13-FY15 cash flows include some movements in relation to DTZ and, therefore, FY16 is the first full year cash flow for UGL in its current form.

Cash outflows relating to the Ichthys Projects are expected to continue during FY17 with net borrowings expected to peak around June 2017. UGL management has forecast net borrowings to be in the range of $174-214 million at 30 June 2017 (see Section 4.4 of the Target's Statement).

3.6 Capital Structure and Ownership

3.6.1 Capital Structure

UGL has the following securities on issue:

- 166,511,240 ordinary shares; and
- 6,682,833 share rights and performance rights.

UGL operates a short term incentive plan under which 25% of any short term incentive award of $50,000 or more is provided in the form of share rights. The share rights convert into ordinary shares on a one-for-one basis at the end of a two year period and are not subject to continuous employment or the achievement of performance hurdles. There are currently 389,155 share rights on issue.

UGL also operates a long term incentive plan under which senior executives are granted performance rights. Performance rights entitle the participant to receive shares in UGL on a one-for-one basis for nil consideration. Performance rights generally vest at the end of the performance period subject to the achievement of performance hurdles. Currently, performance periods range from 2.3 to 4 years depending upon the year of grant. There are currently 6,293,678 performance rights on issue.

Share rights and performance rights do not have any voting rights or entitlement to dividends. In the event of a change of control, the Board may determine to vest some or all of the share rights and performance rights.

20 Differs to FY17 operating cash flow set out in Section 4.4 of the Target's Statement ($81.4 million) due to the deduction of capital expenditure ($22.1 million).

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UGL generally acquires shares on market for the purposes of satisfaction of share rights and performance rights with these shares held on trust as treasury shares until they vest (with shares purchased for forfeited rights reallocated to the vesting of subsequent grants). UGL currently holds 3,564,001 treasury shares. Shares may also be issued directly to participating employees to satisfy share rights and performance rights.

3.6.2 Ownership

UGL has approximately 16,000 registered shareholders. The top 20 registered shareholders represent over 75% of the ordinary shares on issue and are principally institutional nominee or custodian companies. UGL has a significant retail investor base with the vast majority of registered shareholders classified as retail although this represents less than 20% of shares on issue. UGL shareholders are predominantly Australian based investors.

UGL has received notices from the following substantial shareholders. The four substantial shareholders other than CIMIC account for 39.82% of issued shares:

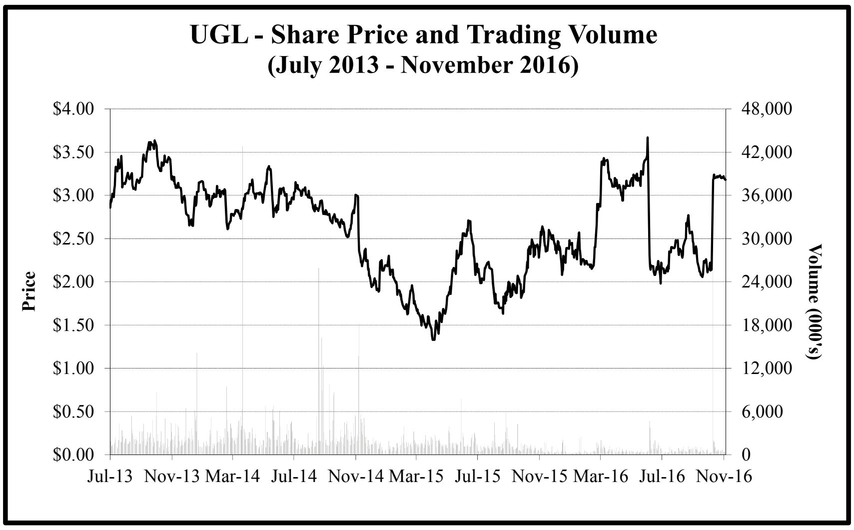
UGL – Substantial Shareholders

Shareholder	Date of Notice	Number of Shares	Percentage
Allan Gray Australia Pty Ltd	7 November 2014	31,245,875	18.77%
CIMIC	9 October 2016	23,044,609	13.84%
INVESCO Australia Limited	20 July 2016	13,774,383	8.27%
AXA SA and Alliance Bernstein Australia Limited	13 October 2016	12,892,094	7.74%
Legg Mason Asset Management Limited	11 May 2016	8,392,604	5.04%

Source: UGL

3.7 Share Price Performance

The following graph illustrates the movement in the UGL share price and trading volumes since 1 July 2013:



Source: IRESS
Note: Share prices prior to 18 November 2014 are adjusted for the $3.00 capital return

As difficult trading conditions emerged during 2012, UGL's share price declined from above $5.00 (adjusted for the capital return) to around $4.00. Following the May 2013 announcement of

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a downgrade to FY13 earnings guidance, the share price fell to around $3.00 (adjusted for the capital return). Subsequently, UGL shares generally traded in a 50 cent range around $3.00 until the announcement of the sale of DTZ (instead of its proposed demerger) in June 2014.

Over the next ten months, the UGL share price declined from around $3.00 to trade below $2.00 (including a low of $1.31 on 2 April 2015). While there was a decline in the sharemarket as a whole, over the same period, this fall is also likely to have reflected other factors specific to UGL including a market re-rating due to the change in the nature of UGL's business post the sale of DTZ (to that of a predominantly Australian based engineering and maintenance services business) and announcements regarding the Ichthys CCPP Project, impairments due to the sustained downturn in the resources sector and other writedowns as a result of the reset of the base business.

UGL's share price recovered to trade above $2.00, closing at $2.56 following the 1 June 2015 market update on the outcomes of a strategic review undertaken by the new Chief Executive Officer, FY15 guidance, outlook statements for FY16 and FY17 and confirmation of the $175 million provision for the Ichthys CCPP Project. However, the share price drifted lower to around $2.00 (ahead of the September 2015 removal of UGL from the S&P/ASX 200 Index) but was underpinned by the FY15 results announcement on 24 August 2015 (that reported underlying performance in line with guidance but further provisions and impairments and that UGL was on track to achieve FY16 guidance) as well as the 17 November 2015 announcement of commercial settlement of Ichthys CCPP Project claims up to 31 August 2015.

There was a sharp increase in the UGL share price following the 15 February 2016 announcement of updated FY16 guidance (an EBIT split of 50/50 between the first half and the second half rather than the 35/65 split previously provided) and the announcement of its HY16 results on 22 February 2016 which confirmed that UGL was on track to achieve FY16 guidance plus a $5.7 million foreign exchange gain relating to repayment of USPP debt. The share price peaked at $3.72 on 3 June 2016. These share price gains were reversed following the Ichthys Project update on 6 June 2016 which disclosed the possibility of a further $200 million provision in relation to the Ichthys CCPP and SMP Projects. The UGL share price fell from $3.45 to $2.30 and traded as low as $1.965 on 28 June 2016.

The UGL share price recovered from the end of June through to mid-August 2016 following announcement of a number of contract wins and closed at $2.77 on 22 August 2016, following release of the FY16 results. The share price subsequently drifted lower, perhaps as the market absorbed the FY16 results and in the absence of a positive catalyst, closing at $2.14 on 7 October 2016, the trading day prior to announcement of the Offer. Since announcement of the Offer, UGL shares have traded in the range $3.16-3.26 (at a volume weighted average price ("VWAP") of $3.17) and closed at $3.18 on 4 November 2016.

UGL has been a reasonably liquid stock. Average weekly volume over the twelve months prior to announcement of the Offer represented approximately 2% of average shares on issue or annual turnover of around 94% of total average issued capital.

UGL is a member of various indices including the S&P/ASX 300 Capital Goods Index and the S&P/ASX 300 Index. At 31 October 2016 its weighting in these indices was 2.92% and 0.03% respectively. The following graph illustrates the performance of UGL shares since 1 July 2013 relative to these indices:

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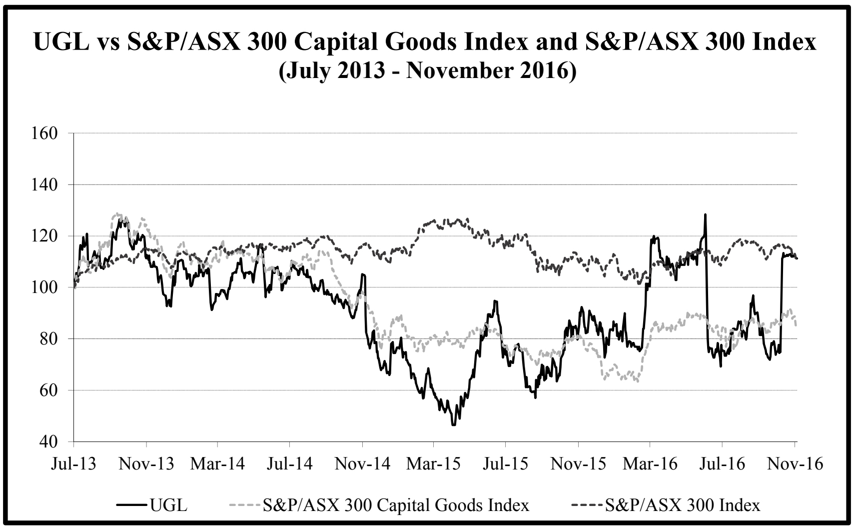

Source: IRESS
Note: Share prices prior to 18 November 2014 adjusted for the $3.00 capital return

UGL shares have generally traded in line with the S&P/ASX 300 Capital Goods Index since 1 July 2013. This index is dominated by CIMIC, which has a 52% weighting. While significantly larger and with international operations, CIMIC has similar business activities to UGL and a significant exposure to the infrastructure sector. It is also directly exposed to the resources sector (being one of the largest contract miners globally) although the contribution from contract mining to revenue and profit is currently around 20% whereas the contribution from infrastructure is 60-65%.

In contrast, the UGL share price has underperformed the S&P/ASX 300 Index since the sale of DTZ in November 2014, primarily as a result of underperformance over the period from November 2014 to April 2015 and June 2016 which coincided with announcements in relation to the Ichthys Projects. The impact of the initial period of underperformance has been offset in part by periods of outperformance (or recovery) in April-May 2015 and February 2016.

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4 Industry Overview

UGL provides engineering, construction and maintenance services to diversified end markets in Australia, New Zealand and South East Asia. Its activities fall broadly into two industries as discussed below.

Outsourced Operations and Maintenance Services

Outsourcing involves the contracting out of business processes and/or services to a specialist external provider either on a permanent or temporary basis. The trend to outsourcing is driven by a range of factors including economic conditions, a desire to reduce costs and instil operational disciplines, efficiencies where the client has fluctuating requirements, a lack of in-house capability and a desire to release resources (people, capital and time) to focus on core competencies. By outsourcing, organisations gain greater budget flexibility and control (by paying for services when required, reducing the need to hire and train specialised staff) and access to the efficiencies and economies of scale available to service providers (e.g. in procurement).

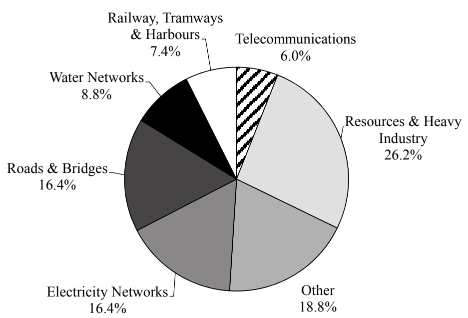
The range of business processes/services that can be outsourced is extensive and the extent to which outsourcing is adopted varies considerably across business processes, industries and geographies. UGL provides contract operations and maintenance services for infrastructure owners/operators primarily in the rail, defence, mining, oil and gas, power, water and transport sectors.

Infrastructure maintenance services involve the provision of outsourced services to the owners/operators of various types of infrastructure. The role of the service provider is to manage and maintain facilities or assets in a secure and compliant manner. Services are typically provided under medium to long term contracts and provide specified outcomes to the clients and varying degrees of risk transfer to the facility service providers.

Demand for infrastructure maintenance services is driven by a range of factors including the macro economic environment and expenditure on infrastructure (both new build and upgrade) as well as business acceptance of the outsourcing model. Prior to the economic downturn that followed the global financial crisis of 2007/08, demand for outsourced operations and maintenance services in Australia was strong. Demand contracted with the downturn but remained strong in the mining and oil and gas sectors (particularly in Western Australia and Queensland). With the recent downturn in the mining and oil and gas sectors and a number of major construction projects nearing completion, market conditions are challenging despite an upturn in other sectors (such as building and construction in the eastern states).

The market for infrastructure maintenance services in Australia is estimated at $20.5 billion for infrastructure maintenance services (having grown by 6.6% per annum over the past five years)[21]. The major market segments serviced are shown in the chart below:

Infrastructure Maintenance Services (2015/16)



Source: IBISWorld[21]

[21] IBISWorld Industry Report OD5330, *"Infrastructure Maintenance Services in Australia"*, November 2015.

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Although not noted as a separate market segment in the chart, the Australian Government's recent Defence White Paper (February 2016) indicates an increase in funding for maintenance of the defence estate (properties etc). Furthermore, substantial investment to be made by the Australian Government in specialist defence equipment (e.g. tanks, ships, aircraft etc) over the medium to long term is expected to result in increased demand for asset maintenance services. Continuing expenditure on infrastructure (notwithstanding the resources sector slowdown) and an increase in the proportion of the market outsourced (currently around 50% which is low relative to other developed countries), is expected to result in growth in infrastructure maintenance services revenue of 3.5% per annum to FY22[21]. The highest growth is projected for providers that are better able to leverage systems, technologies and client relationships, achieve regulatory compliance and use best practice across all services.

The infrastructure maintenance services market is characterised by a large number of participants reflecting the diverse range of projects that require specialised services. The major market participants include ASX listed companies CIMIC, UGL, Downer EDI Limited ("Downer"), Monadelphous Group Limited ("Monadelphous") and WorleyParsons Limited ("WorleyParsons"), Broadspectrum Limited ("Broadspectrum") (a division of Spanish listed Ferrovial S.A.), Wood Group PSN (a division of United Kingdom listed Wood Group plc) and Fluor Australia (a division of United States listed Fluor Corporation).

The key factors to winning roles in this sector include:

- scale, national presence and financial strength;
- access to highly skilled workforce and capacity to mobilise large teams seamlessly. Continuity of staffing can also be a critical factor, at least for technical jobs;
- contract management discipline;
- ability to tender effectively and to price appropriately;
- brand, reputation and safety; and
- ability to meet the regulatory requirements.

To this end, in order to meet the needs of a specific tender, it is not uncommon for service providers to tender for projects in conjunction with other specialist service providers.

Engineering and Construction Contracting

Engineering and construction contracting is a multi-faceted industry involving research, planning, design and execution (through to commissioning) of engineering solutions for developing infrastructure (urban and industrial), processing resources (oil and gas and minerals), managing the environment (e.g. water, waste) and building construction for both government and private clients. All engineering disciplines are offered and there are many areas of specialisation within each discipline. Many businesses combine their technical expertise with management skills to provide services in areas such as project management, risk management and asset management.

Services provided by engineering contractors can be broadly categorised as:

- study services including conceptual studies, feasibility studies and preliminary design services;
- detailed design services;
- project delivery services which are provided in a number of ways including under:
  - engineering procurement and construction project management ("EPCM") contracts where the consultant provides project management, cost control, forecast scheduling, procurement and construction management services, generally on a cost reimbursable basis; and
  - engineering procurement and construction ("EPC") contracts where the contractor provides a complete solution through construction either on a fixed price or a cost reimbursable basis; and
- operational support and enhancement services (including commissioning and decommissioning).

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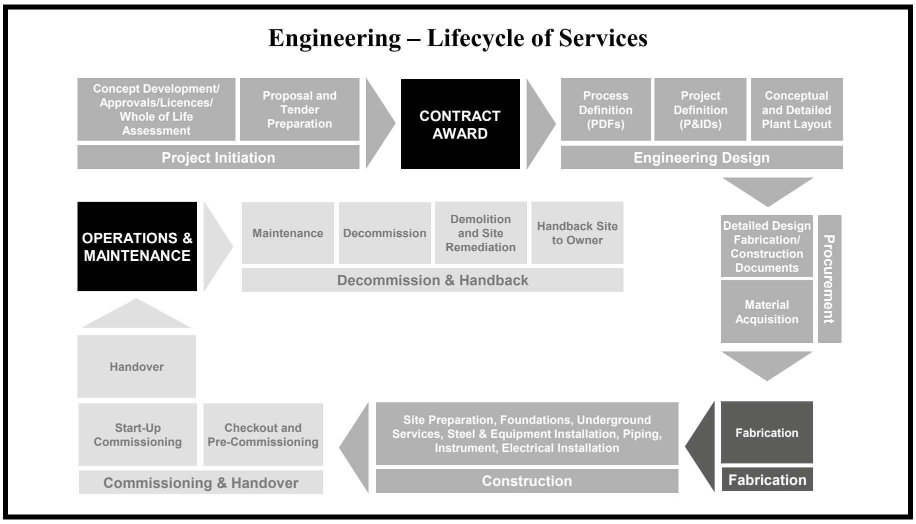
These services are illustrated in the following chart:



As contractors, these businesses are subject to activity levels in the sectors in which they tender their services (e.g. for the energy and resources sector, the global demand for commodities and the level of investment in projects). Activity levels are largely dependent on general economic conditions and government infrastructure spend.

Fee arrangements vary significantly and range from reimbursement of hours incurred based on hourly rates (including a margin) to fixed price contracts and combinations thereof. Engineering services lend themselves to an hourly rate basis as the hours involved in an assignment can be difficult to estimate. Fixed price arrangements increase the risk to the service provider of financial loss but can provide potential for higher margins. In recent times, other fee bases have emerged such as "Target Price" whereby the contractor is reimbursed for actual costs subject to sharing any savings made or overruns at project end based on an agreed formula.

Different types of services generate different levels of revenue and margins while different end markets generate different levels of profitability (although this is also dependent on market conditions). Contracts have varying durations and, depending on the business mix, changes in economic conditions may have an immediate or delayed impact on financial performance.

It is common to use contractors (either individuals or groups) to supplement employees. This provides operational and financial flexibility although there is a significant training and management effort required to ensure that specific technical, quality assurance and safety standards are met.

While price is an important factor, the experience, reputation and client relationships of an engineering and construction contracting business are critical to winning tenders. Furthermore, specific project experience and good client working relationships increase the likelihood of converting study services into detailed design and/or project delivery services and/or operational support.

The engineering and construction contracting industry is made up of a large number of small businesses and few large businesses (including a small number of global or regional service providers). These businesses have different strategic focuses, core competencies, geographic expertise and target markets. They can offer one, some or all of the services required during the lifecycle of an asset, and for very large assets, can partner with other parties with expertise in specific areas.

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In FY16 revenue from engineering services in Australia is estimated at $44 billion having contracted by 0.4% per annum over the last five years[22] (primarily reflecting the downturn in the resources sector). Weak market conditions have resulted in consolidation in the sector.

Major market participants include ASX listed companies UGL, Downer, Monadelphous, WorleyParsons and RCR Tomlinson Limited ("RCR Tomlinson"), United States listed companies Jacobs Engineering Group Inc., KBR Inc. ("KBR") and AECOM, United Kingdom listed company Amec Foster Wheeler plc, John Holland (a subsidiary of Chinese listed China Communications Construction Company Limited), Zinfra Group (owned 60% by State Grid Corporation of China and 40% by Singapore Power International) and privately owned companies Aurecon and GHD.

Trading conditions are expected to remain tight, particularly as major energy construction projects are commissioned. Nevertheless, the upturn in infrastructure spend is expected to result in demand for engineering and construction contracting services of around 2.8% per annum over the next five years.

[22] IBIS World Industry Report, M6923, *"Engineering Consulting in Australia"*, June 2016.

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5 Business Operations

5.1 Rail & Defence

Operations

UGL is a leading provider of complete rail solutions in Australia, operating across the freight and passenger rail markets in rolling stock supply, asset management and metropolitan network operation, either under the *UGL* brand or through joint ventures with experienced and reputable partners. Since 1994, UGL has extended its activities in this area to defence, where it has provided integrated solutions throughout the entire life cycle of defence assets including supply chain, maintenance and refurbishment capabilities for the Australian Defence Force.

UGL's Rail & Defence division operates through three sub-divisions:

- **Passenger Rail**

  UGL provides passenger rail rolling stock asset management and franchise solutions in Australia, through a number of key arrangements:

  - UGL Unipart Rail Services Pty Ltd (70% UGL/30% Unipart Rail Limited) ("UGL Unipart"), which was established in December 2011 to manage the maintenance contract to provide component change out/heavy maintenance overhaul, supply chain services (e.g. purchase of spare parts) and project work to Sydney's fleet of 1,050 passenger rail cars. The joint venture combines UGL's asset management, maintenance capability and knowledge of Sydney's passenger rolling stock and Unipart Rail's international expertise in inventory purchasing and logistics management. The contract expires in 2019. In July 2015, UGL Unipart was awarded the contract for a technology upgrade of Sydney's Tangara passenger rail fleet;
  - Metro Trains Melbourne Pty Ltd ("MTM") (20% UGL/20% John Holland/60% MTR Corporation ("MTR")), a joint venture established for the operation and maintenance of the Melbourne passenger train network under an eight year contract, plus a seven year extension option. The contract is due to expire in 2017 and MTM is currently in exclusive negotiations to exercise options to extend ; and
  - Metro Trains Sydney Pty Ltd ("MTS") (20% UGL/20% John Holland/60% MTR), a similar joint venture established for the operation and maintenance of Sydney Metro Northwest which is currently under construction. The 15 year operations and maintenance contract is expected to commence in 2019 and has a five year extension option.

  UGL's Passenger Rail sub-division is focussed on operations, maintenance and some component build. While it retains some capacity for passenger car build it is unlikely to carry this out again. Its competitors in passenger rail operations and maintenance are predominantly global operators and include Keolis Downer, Serco and Transdev (for operations contracts) and Downer, Alstom and Bombardier (for maintenance contracts).

- **Freight Rail**

  UGL is also a leading supplier of rolling stock and provider of freight rail rolling stock asset management solutions in Australia. It has core capability in rolling stock procurement, design and construction. Through a long standing (40 years) alliance with GE Transportation (a division of General Electric Company), UGL sells and distributes parts and gains access to a range of advanced locomotive technologies that result in performance advantages. This alliance was to run until 2019 but has recently been re-signed for a further 10 years. While UGL ceased volume production of locomotives and bogies around two years ago, it continues to sell previously built rolling stock and expects to restart manufacturing when market conditions improve (it is the last domestic manufacturer).

  Asset management represents approximately 40% of Freight Rail's revenue, providing maintenance services for over 300 locomotives and 1,200 wagons. Maintenance services

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include technical supply chain management (end-to-end supply chain solutions designed to deliver cost savings) and asset performance (which focuses on reliability and availability of client assets). Freight Rail's major maintenance client is Pacific National (approximately 70% of asset management revenue), where UGL maintains ~50% of the Pacific National rail fleet. In FY16, the contract with Pacific National was extended for a further 10 years to 2026. Other clients include Glencore, Genesee & Wyoming Australia/Freightliner, Centennial Coal, Mineral Resources, Crawfords, Great Southern Rail (asset maintenance for The Ghan) and Incitec Pivot.

The third component of Freight Rail is component maintenance, where UGL operates a national component overhaul (mechanical, electrical, parts and service) business through three main sites across Australia. The component overhaul market is fragmented and while UGL has a material share in rail, there is the opportunity to use the largely fixed cost base of the business to service other industries (e.g. resources, water).

UGL's main competitors in freight rail are Downer and Progress Rail.

- **Defence**

  UGL provides a complete range of sustainment solutions to support defence assets. Currently, it provides naval surface ship repair and maintenance services to the Australian government through Naval Ship Management (Australia) Pty Limited ("NSM"), a 50/50 incorporated joint venture between UGL and Babcock International Group plc. UGL also directly provides landing craft repair and maintenance services to the Australian government.

  Defence is an attractive sector, but there are high barriers to entry and the naval ship maintenance market is dominated by global competitors such as BAE Systems, Thales Group and KBR/Rolls Royce. The success of UGL's Defence business is premised on established local capabilities and resources, including workshops, fabrication facilities, engineering and technical skills and defence professionals with experience in Australian and international military standards and protocols.

The major contracts of the Rail & Defence division are summarised below:

Rail & Defence – Major Contracts

Contract	Description	Original Contract Value	Term of Contract
Metro Trains Melbourne (MTM)	Operations and maintenance of Melbourne's passenger train franchise	$1,300 million	2009-2017 (+ 7 year extension option)
Sydney Trains/Transport for NSW (UGL Unipart)	Heavy maintenance and logistics management services on 1,050 passenger cars in Sydney's passenger car fleet	$1,400 million (+ $900 million extension option)	2012-2019 (+ 5 year extension option)
Pacific National	Maintenance for a portion of the Pacific National rail fleet in Queensland, New South Wales and Victoria	$850 million	2013-2026 (extended in FY16 for a further 10 years)
Tangara Technology Upgrade (UGL Unipart)	Technology upgrade of Tangara passenger rail fleet in Sydney	$131 million	2015-2018
Warship Asset Management Agreement ("WAMA") (NSM)	Alliance between Commonwealth of Australia, BAE Systems Australia Defence Pty Limited, Saab Australia Pty Limited and NSM to provide maintenance, capability enhancement and sustainment services for the ANZAC Class fleet	>$250 million (over the initial 6 year period)	2016-2031 (evergreen over expected life of fleet)

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Rail & Defence – Major Contracts			
Contract	**Description**	**Original Contract Value**	**Term of Contract**
Sydney Metro Northwest (MTS)	Operations and maintenance of the rapid transport service	~$100 million per annum	2019-2034
New Intercity Fleet (RailConnect NSW consortium)	Project to replace trains between Sydney, Central Coast, Newcastle, the Blue Mountains and the South Coast UGL component is maintenance and asset services	$570 million	2019-2034 (+ 5 year extension option)

Source: UGL

Operating Performance

The operating performance of UGL's Rail & Defence division for the three years ended 30 June 2016 is summarised below:

Rail & Defence – Operating Performance ($ millions)			
	Year ended 30 June		
	2014 actual	**2015 actual**	**2016 actual**
Order Book	***2,600.0***	***2,415.0***	***2,700.0***
Revenue	**960.0**	**977.9**	**941.8**
EBITDA	**52.4**	**38.4**	**54.5**
Depreciation and amortisation	(8.0)	(3.9)	(4.7)
EBIT	**44.4**	**34.5**	**49.9**
Capital expenditure	**17.5**	**5.2**	**34.9**
Statistics			
Revenue growth		*1.9%*	*(3.7%)*
EBITDA growth		*(26.8%)*	*42.2%*
EBIT growth		*(22.3%)*	*44.7%*
EBITDA margin	*5.5%*	*3.9%*	*5.8%*
EBIT margin	*4.6%*	*3.5%*	*5.3%*

Source: UGL and Grant Samuel analysis (see Appendix 1)

Rail & Defence is the largest of UGL's divisions, contributing approximately 40% of revenue and more than 50% of EBIT in FY16. It has a significant proportion of recurring revenue (predominantly schedule of rates plus a management fee) which is lower risk than lump sum contract revenue.

Historically, the Rail & Defence division generated a significant proportion of its revenue from the sale of freight rail rolling stock. The market for locomotives and wagons was severely impacted by the downturn in the mining industry and performance in FY14 and FY15 reflected the impact of reduced freight locomotive sales and margin pressures associated with mining sector cost savings measures.

As a result of the change in market conditions, Rail & Defence was repositioned in FY15. Freight Rail was resized to reflect current market conditions and while it maintained local capabilities in the manufacture of locomotives and wagons (in particular specialised wagons and small orders), it became focused on securing opportunities in the maintenance sector, where growth was being driven by the increasing use of older fleet and major upgrade programs. Passenger Rail was also repositioned as a local partner for offshore manufacturers and a leading participant in passenger rail maintenance.

Revenue was relatively stable in FY16. The significant increase in earnings was driven by improved performance across passenger and freight rail and continued solid contribution from the MTM and Sydney Trains/UGL Unipart contracts, rationalisation of underutilised rail facilities and

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contributions from the Tangara Technology Upgrade and WAMA contracts. Higher capital expenditure in FY16 reflected a rotables purchase of $23.4 million as part of the extension to, and renewal of, the Pacific National contracts.

Outlook

Rail & Defence's order book at 30 June 2016 was $2.7 billion and has subsequently been enhanced by the award of the New Intercity Fleet contract in August 2016. UGL expects FY17 revenue from Rail & Defence to be relatively flat as the continuing subdued market for freight locomotive sales is offset by strength across freight and passenger maintenance and upgrade projects.

Freight Rail's maintenance and parts market is expected to remain flat, and sales of freight locomotive over the next 3-5 years are expected to be minimal. However, there are potential opportunities for growth through expanding component maintenance to adjacent markets (e.g. resources, water) and if rail customers change their approach to maintenance.

The Passenger Rail maintenance market is expected to grow at ~3% per annum, principally in Queensland, Victoria and New South Wales, as new and expanded rail networks increase demand for passenger rail maintenance services. The immediate priorities for Passenger Rail are to secure the extension of the MTM contract and the UGL Unipart/Sydney Trains contract. Revenue will also benefit from a number of new projects starting from 2019 (MTS and New Intercity Fleet). Passenger rail maintenance opportunities in the medium term include Stage 2 of the Sydney Metro Northwest (the Chatswood to Bankstown extension scheduled for 2024/2026), the XPT passenger train service (the New South Wales government has announced an intention to replace this ageing fleet) and other maintenance contracts. There is a longer term pipeline of light rail projects and potential rail network privatisations where UGL's leading position in passenger maintenance in New South Wales and Victoria should put it in a strong position. There is also the potential for the Passenger Rail business to expand its relationships with existing joint venture partners and pursue opportunities, particularly in technical supply chain services.

A strong pipeline of opportunities exists for Defence reflecting the significant spend on capital infrastructure projects required over the next 10 years in the maritime sector (ships and submarines). This will provide an opportunity for UGL's Defence and E&C divisions to work together to provide integrated maintenance and infrastructure solutions, leveraging the technical capabilities and performance track record of NSM.

5.2 Asset Services

Operations

Asset Services is a national provider of contract maintenance, shut down and minor capital projects services to a range of sectors including oil and gas, petrochemical, power generation and mining. Having started as a blue collar labour hire business over 25 years ago, Asset Services is now a leading provider of maintenance services in Australia and is widely regarded as the largest maintenance service provider to the Australian liquefied natural gas ("LNG") sector. It offers full life cycle asset support, typically working on a fully integrated basis with its clients. Operating under the *UGL* brand, the business has grown significantly since 2009 on the back of oil and gas and LNG activity.

Asset Services:

- is unique among maintenance service providers in that it maintains a large permanent workforce of around 3,500 across the country. This number is expected to grow during FY17 to around 4,500-5,000 as Asset Services ramps up to service recent contract wins. This permanent workforce:
  - delivers reliable experienced resources with appropriate safety expertise for clients;
  - provides continuity of quality staffing for clients, which is particularly important in technical roles; and

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- together with the scale of operations, enables better quality benchmarking across sites and industries;

- targets "Tier 1" clients and has long term relationships with major oil and gas companies (including Chevron, BP and Exxon Mobil), major miners (such as BHP Billiton and Rio Tinto), the Queensland LNG projects (APLNG and GLNG) and power generation companies such as Stanwell Corporation; and
- has a long history of contract renewals/extensions. For example, it has operated as the prime contractor on the BP Kwinana Refinery for over 25 years with this contract being extended again for a further three years during FY16.

Asset Services has around 60 active contracts, primarily structured on a reimbursable cost basis (schedule of fees or cost plus). Contracts are generally for 3-5 years (sometimes with extension options) but most incorporate performance measures which must be met. A number of clients (particularly larger clients) maintain a policy to have two maintenance providers contracted at any one time. Asset Services' major competitors are Monadelphous, Downer, Broadspectrum and Wood Group PSN.

In addition to appropriately qualified and experienced personnel, good industrial relations and high quality safety standards and compliance are critical to the provision of maintenance services in Asset Services' target markets. Asset Services' has a continuous improvement culture and is focussed on seeking innovation and solutions for clients. In this regard, Asset Services is obtaining significant benefits from the adoption of the UGL Way mobility solutions.

The maintenance services sector is a highly competitive industry with price critical to winning tenders. Consequently, profit margins are always under pressure. Asset Services' strategy is to continue to move up the value chain to more technical functions (such as asset planning and management) which results in better profit margins and further embeds UGL as clients recognise the cost of switching providers (increasingly renewals are by negotiation rather than a tender process). It is also moving to the provision of operation services (in addition to maintenance services) which will enable it to expand into other end markets such as the heavy industrial sector.

Cost pressures in end markets such as oil and gas and mining have continued. As a consequence, clients have sought to achieve the benefits from consolidating the number of service providers they deal with across their sites and extended outsourcing to cover site operations as well as maintenance services. During FY16, UGL entered into a 50/50 joint venture with BP known as Australian Terminal Operations Management ("ATOM"). ATOM manages all operations for BP's 17 oil terminals in Australia and Asset Services is contracted to provide maintenance and engineering services to ATOM.

Asset Services is also working with UGL Asia to leverage its Australian oil and gas expertise in South East Asia.

Major contracts currently in Asset Services' order book include:

Asset Services – Major Contracts

Client	Services	Original Contract Value	Contract Period	Contract Type
Stanwell Corporation	Facilities maintenance and management, overhauls and project works for coal, gas and hydro energy assets in Queensland	\$280 million	2014-2018 (potential 1 year extension)	Schedule of rates
ATOM (BP/UGL joint venture)	Operation and maintenance of BP's 17 fuel terminals across Australia	\$190 million	2015-2018 (3 year extension option)	Schedule of rates
Chevron	Maintenance services for operational phase of Western Australian assets	na	2014-2019 (1 year extension + further extension options)	Schedule of rates

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Asset Services – Major Contracts				
Client	**Services**	**Original Contract Value**	**Contract Period**	**Contract Type**
APLNG	Maintenance shutdown and minor modification project services for the Curtis Island LNG facility	$80 million	2015-2019 (2 year extension + further extension options)	Schedule of rates
Alcoa	Maintenance services to Alcoa's Pinjarra and Wagerup Alumina Refineries	$75 million	2016-2019 (extension options available)	Schedule of rates

Source: UGL

Operating Performance

The operating performance of Asset Services for the three years ended 30 June 2016 is summarised below:

Asset Services – Operating Performance ($ millions)			
	Year ended 30 June		
	2014 actual	**2015 actual**	**2016 actual**
Order Book	***1,000.0***	***1,018.0***	***1,000.0***
Revenue	**455.8**	**463.2**	**557.4**
EBITDA	**15.5**	**11.1**	**28.1**
Depreciation and amortisation	(4.1)	(2.5)	(4.0)
EBIT	**11.4**	**8.5**	**24.1**
Capital expenditure (net)	**-**	**2.5**	**5.3**
Statistics			
Revenue growth		*1.6%*	*20.3%*
EBITDA growth		*(28.7%)*	*154.5%*
EBIT growth		*(25.4%)*	*182.5%*
EBITDA margin	*3.4%*	*2.4%*	*5.0%*
EBIT margin	*2.5%*	*1.8%*	*4.3%*

Source: UGL and Grant Samuel analysis (see Appendix 1)

Revenue grew marginally in FY15 on the back of contracts secured with Stanwell Corporation and Chevron in FY14. However, EBIT margin declined due to pressure in coal maintenance activities and low work volumes in the Western Australian design business (which was closed in June 2015). In FY16, revenue increased substantially (~20%) as a result of sales from contracts secured in FY15 and increased activities for Chevron and Stanwell Corporation. At the same time, profitability almost trebled reflecting revenue growth, economies of scale and the resizing of the cost base that occurred during FY15.

During FY16, Asset Services secured a number of contracts including the Karratha Gas Plant Life Extension Program for Woodside (in joint venture with Cape plc), the Pinjarra maintenance contract for Alcoa and the extension of the maintenance activities at the BP Kwinana Refinery. These contracts will contribute to an uplift in revenue in FY17.

Outlook

Asset Services entered the FY17 year with around 60% of revenue secured. Since then it has won a range of contracts (including extensions) for clients such as Stanwell Corporation, Quadrant Energy, Alcoa and BHP Billiton and a further material uplift in earnings is anticipated. As a consequence, Asset Services is ramping up its workforce materially (circa 30%) over the next six to nine months (although the magnitude of this increase creates risks in terms of execution, cost control and management focus).

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While market conditions remain difficult in client markets, Asset Services is well positioned to leverage its existing relationships, its track record and its ability to provide value added services to win its share of contracts that arise. In particular, it will benefit from recently constructed resource assets entering production (and therefore maintenance phase) and the general trend to increased outsourcing of functions.

Major opportunities for growth for Asset Services are:

- increased shut down and turnaround activity in a number of contracts, including the first shut down cycle of the recently commissioned LNG plants maintained by Asset Services;
- the upstream coal seam gas sector in Queensland;
- increased penetration into maintenance of power generation assets; and
- extension of the ATOM business model with other terminal operators.

The ramp up in workforce will place pressure on Asset Services to maintain proper business disciplines.

5.3 Technology Systems

Operations

Technology Systems is a national provider of systems integration and engineering services for road, tunnel and rail infrastructure. Operating under the *UGL* brand, the division provides integrated solutions to customers through its in-house engineering design and construction capabilities. As a project based business, its revenue is driven by the timing of commencement and completion of contracts although it does provide some maintenance services.

Today, it operates in three key business areas:

- **Tunnel Systems:** where it provides integrated mechanical, electrical, controls, signalling, fire life safety and critical communications systems to road and rail tunnel projects. It designs, installs and commissions the full suite of services (including signalling and communications) and can also provide maintenance services. Technology Systems is the only contractor in Australia able to wrap the entire systems requirement for these major transport infrastructure projects and this provides a key competitive advantage.

  These systems represent around 15-20% of the value of tunnel projects. Technology Systems typically aligns itself with a bidding consortium but, depending on the project structure, may tender in its own right. Pre-bid alignment results in a binary tender outcome but if the consortium is unsuccessful Technology Systems is typically released to offer services to the successful tenderer. Technology Systems has been involved in 13 of the 15 significant road/rail tunnel projects built in Australia over the past 25 years.

  Due to the size of these projects, Technology Systems usually faces a manageable ramp up period (of around 18 months) before there is a significant step up in manpower requirements.

  Technology Systems is increasingly providing intelligent transport systems outside of tunnel projects (e.g. bus transit ways and road infrastructure). These systems can include vehicle tracking, video surveillance, emergency telephone and variable message and speed limit signs.

- **Rail Signalling:** provides integrated signalling and communications systems networks for metropolitan and regional passenger rail networks as well as freight networks including private networks owned and operated by mining companies. Individual projects are generally small to mid size but there is a regular flow. Technology Systems has an established state based network of staff and facilities to undertake this work.

- **Critical Communications:** provides integrated services to large clients in sectors that require critical communications such as rail, road, power and mining sectors (e.g. installation of satellite centre stations for the National Broadband Network). It also operates a service centre for repairs and maintenance of broadcast and communications systems.

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Technology Systems:

- is "product agnostic" and can work with all of the leading equipment manufacturers including Siemens, Lockheed Martin and Alstom;
- targets "Tier 1" clients including government entities and the large civil construction companies; and
- maintains a long term stable team of specialist employees. Its mix of activities enables it to keep this core capability together (through redeployment) even when one area of the business is in a weaker phase of the demand cycle.

Its projects are generally self funding and Technology Systems is focussed on taking on contract risk that only relates to its part of the contract and not the entire construction project.

Major contracts currently in Technology Systems' order book include:

Technology Systems – Major Contracts				
Project	**Services**	**Original Contract Value**	**Contract Period**	**Contract Type**
NorthConnex Motorway (Sydney)	Design, procurement, construction and commissioning of mechanical, electrical control, fire and communications system	$476 million (consortium value)	2015-2019	Target Cost
Sydney Metro Northwest	Design and deliver tunnel systems	na	2015-2019	Lump sum
Communications System	Design and installation for a passenger rail sector	$55 million	2016-2019	Lump sum
Digital Train Radio System	Maintenance and support of digital train radio system across electrified rail network	$48 million	2015-2020	Lump sum

Source: UGL

Operating Performance

The operating performance of Technology Systems for the three years ended 30 June 2016 is summarised below:

Technology Systems – Operating Performance ($ millions)			
	Year ended 30 June		
	2014 actual	**2015 actual**	**2016 actual**
Order Book	***300.0***	***578.0***	***600.0***
Revenue	**301.3**	**231.3**	**199.5**
EBITDA	**23.6**	**12.3**	**13.0**
Depreciation and amortisation	(2.5)	(2.0)	(1.2)
EBIT	**21.1**	**10.3**	**11.7**
Capital expenditure (net)	**0.7**	**2.4**	**0.0**
Statistics			
Revenue growth		*(23.2%)*	*(13.7%)*
EBITDA growth		*(47.7%)*	*5.3%*
EBIT growth		*(51.3%)*	*13.9%*
EBITDA margin	*7.8%*	*5.3%*	*6.5%*
EBIT margin	*7.0%*	*4.5%*	*5.9%*

Source: UGL and Grant Samuel analysis (see Appendix 1)

Revenue declined over the period to FY16 as a number of projects were completed including the Regional Rail Link in Victoria (FY15) and the Digital Train Radio System (FY16). The Digital

Train Radio System contract did suffer from problems (since rectified) that impacted earnings in FY15 and FY16. However, Technology Systems' order book grew to around $600 million at 30 June 2015 and 2016 as a result of securing the Sydney Metro Northwest in FY15 and the NorthConnex Motorway in September 2015. Work commenced on the design phase for both of these contracts during FY16.

Outlook

At 30 June 2016, Technology Systems had over two years of project revenue in hand and a significant number of pipeline opportunities, decisions for which are expected in FY17. An uplift in revenues and earnings is expected in FY17 largely reflecting the flow through of the Sydney Metro Northwest and NorthConnex Motorway projects although earnings are likely to be impacted by a higher level of tendering costs in pursuing new contracts.

The transport infrastructure market, particularly for tunnels, was relatively quiet for some years but is now in a period of growth supported by a number of large road and rail construction projects driven by government spending, particularly in New South Wales and Victoria. Examples of the projects in progress, some of which are in the late stages of tendering, include the Melbourne Metro Rail Tunnel, Melbourne Metro Systems, the Mernda Rail Extension, the Melbourne Western Distributor, the Auckland Rail Tunnel and the West Australian Freightlink Tunnel. The longer term pipeline of opportunities includes WestConnex (Sydney) Stage 3, the extension of the Sydney Metro, Cross River Rail (Brisbane) and various light rail projects. As Australia's leading transport systems integration provider, Technology Systems is in a strong position to maintain its share of these opportunities.

5.4 E&C

Operations

E&C has operations across Australia and New Zealand. It has over 40 years' experience delivering projects from concept, through initial design, procurement, construction and commissioning. Operating under the *UGL* brand, the division employs around 500 people and provides the full suite of engineering disciplines.

E&C was UGL's original business. Although initially focussed on the resources sector in Western Australia, today it provides services to a range of end markets with a major focus on water and waste water (water treatment and network renewals), power systems (generation, transmission, distribution and renewables) and resources infrastructure.

E&C's objective is to work for "Tier 1" clients (including government, utilities and major civil infrastructure contractors) and develop long term relationships. With a full suite of in-house engineering capacity, E&C is able to partner with clients to deliver projects reducing the external interfaces for the client. Internally, this enables personnel to work across projects and gain practical expertise, strengthening UGL's expertise as well as employee retention. E&C partners with leading technology partners (such as General Electric) to deliver solutions for clients.

E&C's services in key markets are as follows:

- **Water and waste water:** provides services across all end markets including major utilities, municipal, agriculture (irrigation and reticulation) and industrial markets.

  E&C offers services across the entire water cycle and asset life (including treatment plant design, desalination, water reuse, membrane technology, channels, metering, pump stations and control systems) but has a focus on, and expertise in, waste water. The business seeks to leverage its long term staff's expertise and full suite of capabilities that enable it to take on process risk. Key targets are high density cities and network renewals. E&C's major competitors include Downer, John Holland and Monadelphous.

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E&C has recently been awarded a number of key relationship contracts including a $100 million project for Shoalhaven City Council (upgrade of its Nowra and Bomaderry sewage treatment plants and the design and construction of a pipeline under Shoalhaven River) and for Sydney Water (management of the Lower South Creek waste water treatment program). The Lower South Creek contract is the first for Sydney Water of a new operating model where E&C acts as a "delivery partner" with its client.

Activity in the water and waste water sector is project driven and has declined since 2011. However, with ageing water infrastructure and continued population growth, demand for outsourced engineering services in this sector is expected to continue (albeit at lower levels than recent years).

- **Power systems:** provides services for power transmission and distribution with specific expertise in electricity substations. These service lines provided a regular flow of small to medium projects largely across the eastern seaboard. However, construction activity in these markets has declined since FY13 as a result of reduced network investment on the back of reduced regulatory allowances and electricity demand. The business has identified areas of opportunity for growth within the distribution sector and significant opportunities have emerged in renewables and power plant decommissioning. Major competitors in power systems include Downer, RCR Tomlinson, KBR and Zinfra Group with RCR Tomlinson also active in the renewables market.

  E&C identified solar as an area of growth in 2012 and has invested in capabilities across solar and battery storage, leveraging its expertise in linking generation assets to the electricity grid. Given increased certainty in renewables funding, demand has increased from solar project developers. During FY16, E&C completed the design, installation and commissioning of the Darwin Airport Solar Project. Subsequently, it has completed a second project and currently has three solar projects under construction and a number in its pipeline.

  E&C continues to service its traditional power systems market and, in FY16, secured a contract to maintain Mercury's hydro and geothermal stations in New Zealand for an initial three year term.

E&C's activities in the resources sector are focussed on its core skills in water and waste water and power systems (particularly on sustaining capital work projects rather than new investment) but it has the capability to undertake projects across the resources and industrial sectors.

Since 2014, the new senior UGL management team has applied a strict discipline to contract selection and management across the business. In this regard, E&C adopts a strict gateway system where projects are identified ahead of the tendering opportunity and an assessment made of whether it should be endorsed as a pipeline opportunity. If endorsed, the contract is sponsored through the tendering process and, at various points, E&C may decide not to pursue the opportunity depending on a range of factors (including the associated risk and cash flow profile). If E&C wins the contract, it is managed through every stage with a focus on safety, quality, strong project delivery management, cash flow profile and variation management.

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Operating Performance

The operating performance of E&C for the three years ended 30 June 2016 is summarised below:

E&C – Operating Performance ($ millions)			
	Year ended 30 June		
	2014 actual	2015 actual	2016 adjusted actual[23]
Order Book	***419.0***	***208.0***	***198.0***
Revenue	**462.3**	**507.7**	**253.9**
EBITDA	**31.4**	**51.0**	**23.3**
Depreciation and amortisation	(3.9)	(9.1)	(4.4)
EBIT	**27.5**	**42.0**	**18.9**
Capital expenditure (net)	**2.0**	**4.6**	**1.3**
Statistics			
Revenue growth		*9.8%*	*(50.0%)*
EBITDA growth		*62.4%*	*(54.3%)*
EBIT growth		*52.5%*	*(55.1%)*
EBITDA margin	*6.8%*	*10.1%*	*9.2%*
EBIT margin	*6.0%*	*8.3%*	*7.4%*

Source: UGL and Grant Samuel analysis (see Appendix 1)

FY15 benefitted from significant activity in substations as well as the contract with Alinta Energy to design, procure and construct the Newman to Roy Hill High Voltage Power System in Western Australia but activity in the water sector was already in decline. During FY16, revenue declined sharply reflecting the contraction in expenditure in the resources sector and a reduction in projects in the utilities sector partly as a result of unsuccessful tendering strategies in that, and prior, years. As a consequence, E&C restructured and reduced overheads to reflect available business opportunities. Earnings fell in FY16 because of the reduced activity. In addition, until late FY16, the Ichthys Projects were part of E&C and the historical results may not fully exclude the impact of these projects on the business.

Outlook

At 30 June 2016, E&C's order book was $198 million. However, during FY16 the business pipeline strengthened significantly and the order book is projected to almost double in FY17 (on the back of projected new contract wins). In the first quarter of FY17, E&C has won contracts totalling $218 million (including the Shoalhaven and Lower South Creek projects). Coupled with more solar projects coming on stream, this increase in orders (as well as the absence of restructuring costs) is expected to underpin an uplift in FY17 EBIT.

The engineering contracting sector is a competitive market, even more so in tight market conditions. Consequently, E&C has focussed on its key expertise, leveraging long term relationships and taking advantage of its first mover advantage in solar renewables. Although it currently has less than one year's revenue in hand for FY17, it believes it will win a number of its current pipeline opportunities.

E&C's ability to cross sell to other UGL divisions, its in-house employed capability, its long term track record and deep relationships means it is well positioned to take advantage of business opportunities that arise. The major opportunities for growth are:

- waste and waste water. E&C's leading market position and long experience in the successful delivery of water projects means that it is well placed to win its share of the increased opportunities in this market;

[23] Refer Appendix 1.

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- solar. E&C's practical experience in delivering solar projects provides an important competitive edge. It is the preferred contractor on four solar projects which would underpin significant revenue if these projects receive funding and proceed; and
- specialised aspects of power distribution such as grid connections where demand is increasing through the build out of renewables projects.

Over the medium term, some recovery in resources sector activity can also be expected.

There will be a need to recruit additional employees to meet the anticipated level of contract wins. However, the nature of the E&C business means there is usually lead time in which to do so.

5.5 UGL Asia

Operations

UGL has had operations in Asia for over 35 years. Historically, it has operated across Hong Kong, India (through the Texmaco joint venture locomotive fabrication facility), Thailand, Malaysia and Singapore, with particular expertise in water infrastructure.

More recently, UGL Asia has based its business in Malaysia with it being focussed on four key sectors in South East Asia – water and sewage, oil and gas EPC, specialised mechanical and electrical services and oil and gas asset services. UGL Asia expects to leverage its local capability and draw on UGL's Australian expertise in these key sectors. UGL Asia's operations in Hong Kong were closed in FY16 and it is no longer targeting rail projects.

Key contracts for UGL Asia are summarised in the table below:

UGL Asia – Key Contracts

Project	Client	Location	Original Contract Value	Contract Period
Mechanical and electrical packages for the Klang Valley Mass Rapid Transport ("KVMRT") Line 1	MMC Gamuda KVMRT (UGW) Joint Venture	Malaysia	$28 million	2010 – December 2016/January 2017
Upgrade of Choa Chu Kang ("CCK") Water Works	Singapore Public Utility Board	Singapore	$27 million	October 2015 – July 2018
Installation and pre-commissioning of subsea pipelines	Hess Exploration & Production	North Malay Basin	$18 million	April 2016 – July 2017

Source: UGL

UGL Asia also has a pipeline of projects in South East Asia that it has tendered for, or is proposing to tender for, and believes it is well placed to win a number of these tenders.

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Operating Performance

The operating performance of UGL Asia for the three years ended 30 June 2016 is summarised below:

UGL Asia – Operating Performance ($ millions)			
	Year ended 30 June		
	2014 actual	2015 actual	2016 adjusted actual[23]
Order Book	***10.0***	***35.0***	***124.0***
Revenue	**33.9**	**19.7**	**38.0**
EBITDA	**(3.7)**	**(7.8)**	**(4.6)**
Depreciation and amortisation	-	(0.1)	(0.2)
EBIT	**(3.7)**	**(7.9)**	**(4.8)**
Capital expenditure (net)	**-**	**0.2**	**0.1**
Statistics			
Revenue growth		*(41.9%)*	*92.4%*
EBITDA growth		*nmf[24]*	*nmf*
EBIT growth		*nmf*	*nmf*
EBITDA margin	*(10.8%)*	*(39.6%)*	*(12.0%)*
EBIT margin	*(11.0%)*	*(39.9%)*	*(12.6%)*

Source: UGL and Grant Samuel analysis (see Appendix 1)

UGL Asia has reported losses for the last three years reflecting its lack of scale. Revenue declined in FY15 as a result of reduced levels of secured infrastructure projects in South East Asia. Losses increased, reflecting reduced throughput volumes in the Texmaco joint venture, which was exited during FY16.

In FY16, revenue grew substantially following commencement of the CCK water upgrade project and construction of the First Solar module assembly building, albeit revenue generation was later in the year than anticipated. The cost base was also right sized to support the scale of the business.

Outlook

UGL Asia is forecasting substantial revenue growth and a return to profitability in FY17, underpinned by the projects secured in the latter part of FY16, including the Hess subsea pipeline installation. Revenue and EBIT are supported by the $124 million order book at 30 June 2016 with 53% of revenue being secured. Year to date performance (to 30 September 2016) is behind budget, although this largely reflects the timing of existing projects.

Over the longer term, UGL Asia is forecasting strong growth in revenue reflecting the level of prospects in South East Asia across water and sewerage, oil and gas EPC and specialised mechanical and electrical projects and EBIT margins of around 7%. Only 16% of FY18 revenue is secured and achieving the targeted growth is dependent on converting existing and future pipeline opportunities. UGL Asia arguably has a competitive advantage in the water and sewage sector (ownership of technology, reputation, brand). However, the market for specialised mechanical and electrical projects, while a high margin growth sector, is more competitive (UGL Asia is one of five businesses tendering for projects in this sector). Oil and gas EPC is at a cyclical low and is a new sector for UGL Asia that relies on the track record of the Australian business.

Furthermore, UGL Asia does not currently operate in oil and gas asset services in South East Asia. While it is in the process of positioning itself to be able to tender for asset services opportunities in the medium to long term, leveraging UGL's Australian track record in this sector, its ability to do so successfully is untested.

[24] nmf = not meaningful

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5.6 Ichthys Projects

Operations

The Ichthys LNG Project in the Northern Territory involves the construction of onshore facilities to transform gas delivered via subsea pipelines to liquid for export. JKC Australia LNG Pty Ltd ("JKC") is the lead EPC contractor responsible for construction of the project's onshore facilities. JKC is a joint venture between JGC Corporation, KBR and Chiyoda Corporation. The end project will be operated by INPEX Corporation, a listed Japanese oil company.

UGL is a party to two contracts for the Ichthys LNG Project:

- the design and construction of a Combined Cycle Power Plant (the "CCPP Project"). The CCPP Project is a $550 million (original contract value) lump sum contract with JKC awarded in April 2012 to a 50:50 joint venture between UGL and C2HM ("C2HM") and is part of a consortium with GE which is contracted to supply turbines and generators for the power plant. CH2M is the lead partner and manager for the joint venture. The project was originally expected to be completed by December 2016.

  The CCPP Project has been impacted by significant client driven design and scope changes during the design phase, resulting in material delays to the program schedule. In November 2015, theCH2M UGL joint venture's claims up to 31 August 2015 were settled, along with an agreed extension of time. However, JKC has subsequently advised that it is unable to meet its obligations in line with the revised program schedule and, as a result, the CCPP Project has incurred and is likely to incur, additional cost increases. Significant claims were submitted to JKC in May 2016 with further claims expected to be submitted in December 2016 that will either be negotiated or arbitrated by the parties over the coming months.

  As at 31 October 2016, the overall CCPP Project was 87% complete on the base scope at the consortium level and 79% complete at the joint venture level. Design and procurement is largely complete with construction approximately 66% complete. The overall project (including the GE component) is expected to be completed by October 2018; and

- the structural, mechanical and piping ("SMP") construction package for the LNG processing component of the Ichthys LNG Project (the "SMP Project"). The SMP Project is a $737 million (original contract value) lump sum/schedule of rates contract with JKC awarded in February 2014 to a 50:50 joint venture between UGL and Kentz Corporation Limited ("Kentz"). The scope of work includes the provision of services for site wide installation for process trains and additional pre-commissioning and commissioning expertise and covers construction only, using client designs and client supplied materials and modules. Work commenced on the SMP Project in August 2014 and was originally scheduled to be completed around December 2016.

  The SMP Project has also been impacted by significant delays and disruption (including late and incomplete supply of materials by JKC, defects in client supplied materials, late and incorrectly sequenced module delivery and a high incidence of design error and changes to design during project execution). In August 2016, the UGL Kentz joint venture's claims up to 31 May 2016 were settled. Productivity levels have subsequently improved and more recently have been tracking above the levels forecast in the cost to complete estimate determined at 30 June 2016. Further claims due to client delays and variations are being submitted to JKC covering the period from June 2016 onwards.

  As at 31 October 2016, the construction of the overall SMP Project was approximately 60% complete and all modules are now in final position. The project is expected to be completed by October 2017.

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Operating Performance

The operating performance of the Ichthys Projects (UGL's share) for the three years ended 30 June 2016 is summarised below:

Ichthys Projects – Operating Performance ($ millions)			
	Year ended 30 June		
	2014 actual	2015 actual	2016 actual
Order Book	***557.0***	***459.0***	***187.0***
Revenue	**63.1**	**128.6**	**295.3**
EBITDA	**-**	**(174.9)**	**(196.9)**
Depreciation and amortisation	-	(0.1)	(3.1)
EBIT	**-**	**(175.0)**	**(200.0)**
Capital expenditure (net)	**-**	**1.8**	**3.1**
Statistics			
Revenue growth			*129.7%*
EBITDA growth			*12.6%*
EBIT growth			*14.3%*
EBITDA margin		*(136.0%)*	*(66.7%)*
EBIT margin		*(136.1%)*	*(67.7%)*

Source: UGL and Grant Samuel analysis (see Appendix 1)

An initial $175 million provision was raised in relation to the CCPP Project as at 31 December 2014 (announced 23 February 2015) following a reprogram of the project schedule and a reforecast of the cost estimates. This provision followed a review of the CCPP Project by CH2M and the joint venture recording a US$170 million loss for quarter ended 30 September 2014, as a result of which CH2M recognised a US$85 million provision in its accounts for the September 2014 quarter (released on 24 November 2014). UGL informed the sharemarket on 6 November 2014 that CH2M would be booking a provision, but stated that it was not in a position to reliably measure the provision at that stage.

The adequacy of the $175 million provision in relation to the CCPP Project was confirmed when UGL released its FY15 results on 24 August 2015. The FY15 results announcement included a statement by UGL that since the HY15 announcement, the CCPP Project had stabilised, with productivity targets being achieved and performance in line with the revised cost to complete.

A further $200 million provision was raised in relation to the Ichthys Projects as at 30 June 2016. The possibility of this further provision was flagged on 6 June 2016, when UGL announced that both projects continued to experience substantial delays and disruption attributable to the client. Although further substantial claims had been raised with JKC on the Ichthys Projects, commercial negotiation of claims for the SMP Project, while ongoing, had been protracted. Consequently, UGL was not confident that claims for the CCPP Project would be resolved in a timely manner, and, therefore, it was possible that recovery of claims would need to be pursued through formal dispute processes. The additional $200 million provision:

- reflects the estimated total costs to complete the Ichthys Projects based on the ongoing impact of inefficiencies and delay and disruption (which are assumed to continue) and current approved revenue. Total costs to complete include UGL management oversight costs;
- reflects, and is consistent with, the commercial settlement on the SMP Project (up to 31 May 2016) reached in August 2016;
- is consistent with the US$95 million charge recorded by CH2M against the CCPP Project in the quarter ended 30 June 2016; and
- does not allow for any recovery of future claims from JKC other than $32.5 million (UGL's 50% share) on the SMP Project which predominantly relate to standard client instructed orders under the contract.

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UGL regards the total provision for the Ichthys Projects of $375 million as appropriate. It reflects the requirement to forecast project costs to complete ahead of claims settlement/revenue certainty and the limited ability to recognise future claims as revenue under accounting standards.

No margin is forecast to be earned from the Ichthys Projects in FY17 or subsequent years.

5.7 Corporate

UGL operates a group shared services model for certain costs (such as information technology, insurances, payroll) whereby the operating divisions pay for services utilised while other costs are allocated. On this basis, divisional results are considered to be on a fully costed basis.

Other costs are incurred and not allocated to the divisions. These costs are associated with running UGL's head office (including executive office, group finance, legal, human resources, information technology and business development) and costs of being a listed company (board of directors, annual reports and shareholder communications, share registry and listing fees). In recent years these costs have fluctuated primarily reflecting the restructuring of UGL's business:

Corporate – Operating Performance ($ millions)

	Year end 30 June		
	2014 actual	2015 actual	2016 adjusted actual[23]
EBITDA	**(31.7)**	**(23.5)**	**(23.1)**
Depreciation and amortisation	(7.1)	(16.3)	(9.3)
EBIT	**(38.9)**	**(39.8)**	**(32.4)**
Capital expenditure (net)	**0.7**	**4.7**	**5.4**

Source: UGL and Grant Samuel analysis (see Appendix 1)

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6 Valuation of UGL

6.1 Summary

UGL has been valued in the range $527.8-667.8 million which corresponds to a value of $3.11-3.94 per share. The valuation is summarised below:

UGL – Valuation Summary ($ millions)			
	Report Section Reference	Value Range	
		Low	High
Business operations	6.3	775.0	825.0
Ichthys Projects	6.5	(175.0)	(100.0)
Other assets and liabilities	6.6	(5.9)	9.1
Enterprise value		**594.1**	**734.1**
Net borrowings	6.7	(66.3)	(66.3)
Value of equity		**527.8**	**667.8**
Fully diluted shares on issue (millions)		169.6[25]	
Value per share		**$3.11**	**$3.94**

The valuation represents the estimated full underlying value of UGL assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect UGL shares to trade on the ASX in the absence of a takeover offer. Shares in a listed company normally trade at a discount of 15-25% to the underlying value of the company as a whole (but this discount does not always apply).

The value attributed to the business operations of $775-825 million (midpoint $800 million) is an overall judgement having regard to a number of valuation methodologies and parameters, including capitalisation of earnings or cash flows (multiples of EBITDA and EBIT) and DCF.

The valuation reflects the particular attributes of UGL's business operations and takes into account factors such as:

- the business as a whole offers a highly attractive, diverse mix of businesses with only a moderate exposure to the resources sector;
- the primary focus of the business is on maintenance type services with recurring revenue and relatively long term contracts rather than shorter term construction projects;
- the business has been restructured and reset and the outlook across a number of UGL's key sectors is positive; and
- the market evidence in terms of multiples implied by acquisitions of Australian engineering, construction and maintenance services businesses and by the share prices of listed Australian engineering, construction and maintenance services businesses (see Section 6.4.2).

The estimate of the value of the Ichthys Projects of $(175)-(100) million is based on updated estimated cash flows as at 31 October 2016 discounted at a rate of 11% (see Section 6.5). The low end estimate of $(175) million makes no explicit allowance for further claims recovery while the high end estimate of $(100) million makes explicit allowance for some level of net claims recovery (but well below aggregate claims). However, the value of the Ichthys Projects is subject to considerable uncertainty as it is not possible to project future net cash flows (including the extent of claims recoveries) with any degree of confidence. Therefore, any valuation conclusions need to be treated with considerable caution. The complete range of outcomes is extremely wide. The final outcome could be materially better or worse than this range and shareholders could legitimately take a very different view.

[25] Based on 166,511,240 shares on issue (including 3,564,001 treasury shares) and 6,682,833 share rights and performance rights.

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Grant Samuel's valuation range is wide (24%) reflecting the impact of the value range attributed to the Ichthys Projects. The valuation range for UGL's business operations is less than 10%.

The value includes a premium for control. Takeover premiums are typically in the range 20-35% depending on the individual circumstances. Synergies available to acquirers such as cost savings through merging operations are normally a significant factor in justifying their ability to pay a meaningful premium over market prices. The premiums implied by Grant Samuel's valuation range over the $2.14 closing price on 7 October 2016 (the last trading day prior to the announcement of the Offer) are in the range of 45-84%. In this case, there are significant synergies available to a range of acquirers. Accordingly, the level of premium for control can be expected to be towards the high end of typically observed premia. However, it is also likely that UGL's share price prior to announcement of the Offer reflected negative sentiment and uncertainty associated with the Ichthys Projects. Accordingly, the level of premium for control can be expected to be higher than in other takeover situations.

6.2 Methodology

6.2.1 Overview

Grant Samuel's valuation of UGL has been estimated by aggregating the estimated market value of its operating business (on a "control" basis) together with the realisable value of non-trading assets and deducting external borrowings and non-trading liabilities. The value of the operating business has been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

6.2.2 Capitalisation of Earnings or Cash Flows

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBIT (or EBITA[26]) or NPAT. These are referred to respectively as EBITDA multiples, EBIT multiples (or EBITA multiples) and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA and EBIT (or EBITA) multiples are more commonly

[26] EBITA is earnings before net interest, tax and amortisation of acquired intangibles.

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used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer but are also used extensively in sharemarket analysis.

Where an ongoing business with relatively stable and predictable cash flows is being valued, Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point.

Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

While EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:

- EBIT (or EBITA) multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable indicator of ongoing capital expenditure. In addition, there can be differences between companies in the basis of calculation of depreciation. Where this is an issue, another metric that can be useful is EBITDA-Capital Expenditure (sometimes referred to as Operating Cash Flow); and
- businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

In determining a value for UGL's business operations, Grant Samuel has placed particular reliance on the EBITDA and EBIT multiples implied by the valuation range compared to the EBITDA and EBIT (or EBITA) multiples derived from an analysis of comparable listed companies and transactions involving comparable businesses.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers it is necessary to infer the appropriate multiple from other evidence.

The primary approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors, including:

- economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
- strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
- rationalisation or synergy benefits available to the acquirer;
- the structural and regulatory framework;
- investment and sharemarket conditions at the time; and
- the number of competing buyers for a business.

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A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. While averages or medians can be determined it is not appropriate to simply apply such measures to the business being valued. The range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings. The most important part of valuation is to evaluate the attributes of the specific business being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it appropriately belongs.

An alternative approach in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor. To convert sharemarket data to meaningful information on the valuation of companies as a whole, it is market practice to add a "premium for control" to allow for the premium which is normally paid to obtain control through a takeover offer. This premium is typically in the range 20-35%.

The premium for control paid in takeovers is observable but caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. It is inappropriate to apply an average premium of 20-35% without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering.

Acquisitions of listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures (competition etc.) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

6.2.3 Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including resources, and for the valuation of start-up projects where earnings during the first few years can be negative but it is also widely used in the valuation of established industrial businesses. Discounted cash flow valuations involve calculating the net present value ("NPV") of projected cash flows. This methodology is able to explicitly capture depleting resources, development projects and fixed terms contracts (which are typical in the resources sector), the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.

Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long term projections prepared by

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management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, discounted cash flow valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance need to be made.

A financial model for UGL's business operations has been developed by Grant Samuel based on the Business Plan prepared by UGL management. The model allows the key drivers of revenues, margins and capital expenditure to be modelled. The model is based on a number of assumptions about future events and is subject to significant uncertainty and contingencies, many of which are outside the control of UGL. The financial model is discussed in more detail in Section 6.4.4 of this report.

6.2.4 Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. However, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

6.2.5 Net Assets/Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading.

6.3 Valuation Approach for UGL

In valuing UGL's operating business, the primary focus was on earnings multiples analyses with DCF analysis used as a cross check. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value the business of UGL and a net assets/realisation of assets methodology is not appropriate for UGL. The value range selected for UGL is a judgement derived through an iterative process.

Single Business or Sum of the Parts Valuation

In estimating the value of the operating business, the first issue to consider is whether to value UGL as a single integrated engineering, construction and maintenance services business or as a portfolio of four business divisions. There are arguments for both approaches:

- the nature of almost all companies in the engineering, construction and maintenance industry is that they provide a range of services (from consulting to design and project execution to operations and maintenance) across a number of sectors (e.g. infrastructure, mining, energy, property) to provide diversification benefits and minimise the impact of the cyclical nature of these sectors. Almost all of UGL's listed peers (which provide key benchmark earnings multiples) operate in this manner. Similarly, the acquisition targets in the transaction

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evidence typically operated diverse businesses. There are no "pure play" listed companies or transactions that are comparable to UGL's divisions; but

- while there is some interaction between UGL's divisions (e.g. as part of a consortium to provide end-to-end solutions for clients or to assist in obtaining subsequent downstream work where UGL has secured an upstream role), each of the divisions operate with a high degree of autonomy and, at least theoretically, could be sold separately as standalone businesses (albeit probably at lower multiples). Moreover, each division has different economic drivers and competitive environments. For example, Rail & Defence and Asset Services are characterised by recurring revenue based on a schedule of rates under long term contracts while Technology Systems and E&C are project driven and primarily operate under higher risk lump sum or other risk sharing contracts.

  Accordingly, Grant Samuel has considered the value of UGL from both perspectives:

  - Section 6.4.2 analyses value in terms of overall EBITDA and EBIT multiples;
  - Section 6.4.3 analyses value in terms of EBITDA and EBIT multiples for each division. The values attributed to each division are an allocation of the overall value; and
  - Section 6.4.4 sets out a high level DCF analysis. While the value is a "single enterprise valuation" utilising an overall cost of capital, there are separate cash flows for each division allowing for different revenue growth profiles, capital expenditure patterns and margin enhancing initiatives.

EBITA and EBIT

EBITA rather than EBIT has been used for the purposes of the earnings multiple analysis (see Section 6.4.2) as it is before the impact of amortisation of identifiable intangible assets acquired in prior transactions (including customer contracts and relationships). As UGL does not have any acquired intangible assets, EBIT is equivalent to EBITA for this purpose.

Synergies and Cost Savings

Grant Samuel has given consideration to the synergies potentially achievable by acquirers of the business. In this regard, it needs to be recognised that:

- normal valuation practice is to include (either implicitly or explicitly) a value for synergies that are available to multiple acquirers but to exclude synergy value that is unique to a particular acquirer; and
- where earnings multiples from comparable transactions are a primary reference point, adding synergies to earnings or making a further multiple adjustment for synergies would potentially result in "double counting" of value as the multiples from the comparable transactions are usually based on "standalone" earnings (either reported or forecast) and the value of synergies is therefore reflected in the multiple (i.e. the transaction multiple would be lower if based on earnings including synergy benefits).

Accordingly, Grant Samuel has only recognised savings available to multiple acquirers of UGL such as listed company costs and a portion of head office costs. These savings represent 50% of corporate costs.

6.4 Business Operations

6.4.1 Overview

Grant Samuel estimates the value of UGL's business operations to be in the range $775-825 million.

The primary focus was on earnings multiples with DCF analysis used as a cross check. The value range selected is a judgement derived through an iterative process.

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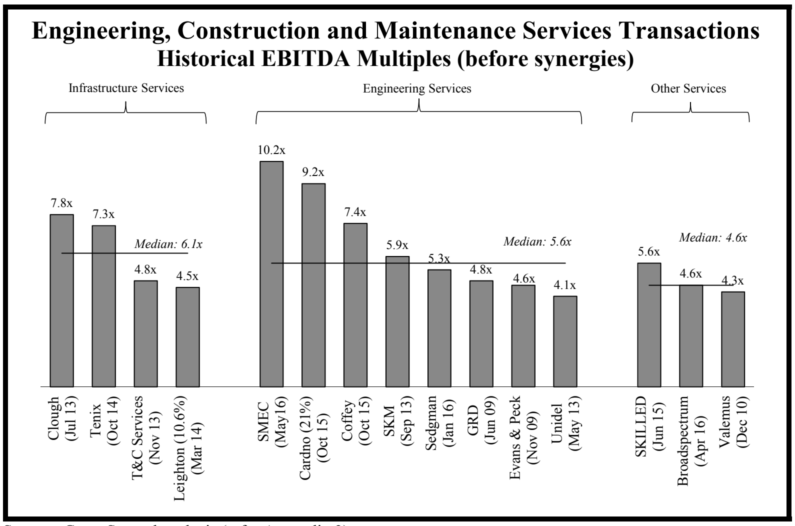
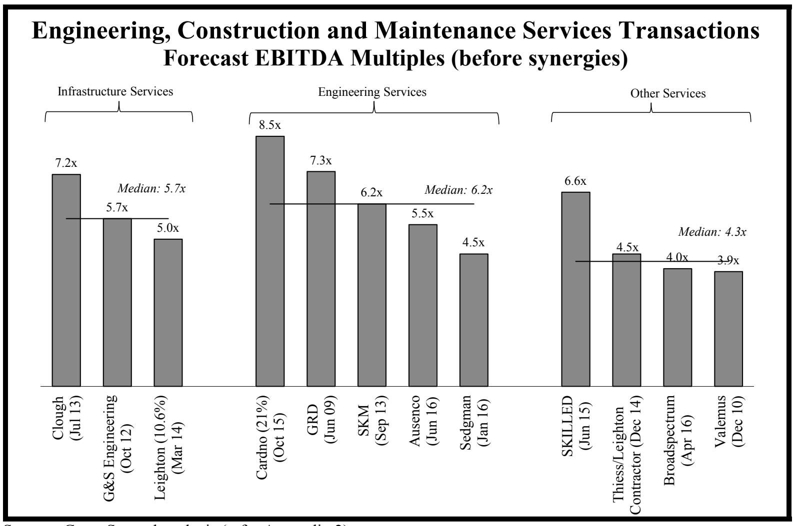
6.4.2 Earnings Multiple Analysis

Transaction Evidence

Appendix 2 contains an analysis of the earnings multiples implied by selected recent acquisitions of engineering, construction and maintenance services businesses in Australia. The following charts summarise the historical and forecast EBITDA multiples with transactions categorised by primary activity:



Source: Grant Samuel analysis (refer Appendix 2)
Note: (1) Multiple for Unidel is based on the base price for the acquisition.
(2) Multiple for GRD is based on midpoint of evidence.



Source: Grant Samuel analysis (refer Appendix 2)
Note: (1) Multiple for G&S Engineering is based on the base price for the acquisition.
(2) Multiples for GRD and Thiess Services/Leighton Contractors are based on midpoint of evidence.

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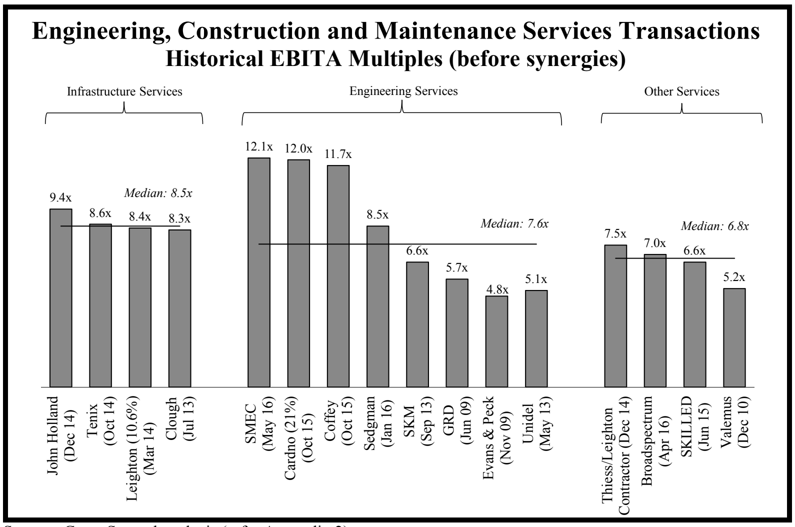
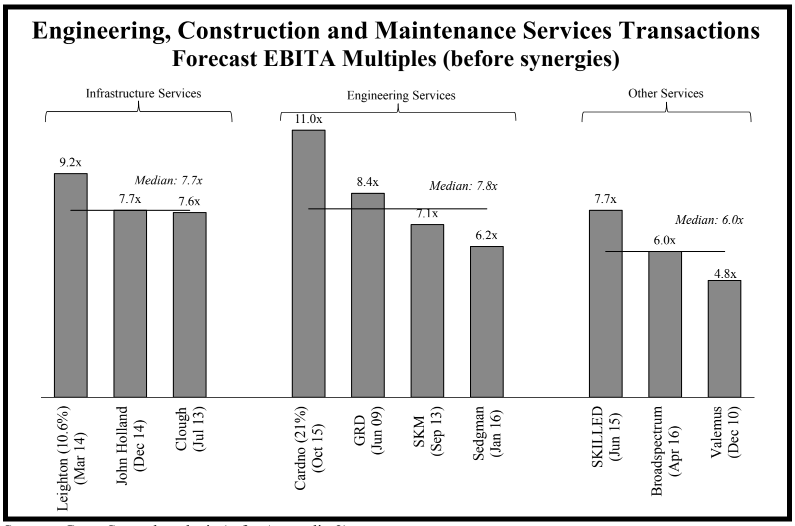
The following charts summarise the historical and forecast EBITA multiples for the same transaction set:



Source: Grant Samuel analysis (refer Appendix 2)
Note: (1) Multiple for Unidel is based on the base price for the acquisition.
(2) Multiple for GRD is based on midpoint of evidence



Source: Grant Samuel analysis (refer Appendix 2)
Note: (1) Multiple for GRD based on midpoint of evidence.

The analysis shows a relatively consistent range for most transactions involving infrastructure and engineering services of around 5.0-6.0 times forecast EBITDA and 7.5-8.0 times forecast EBITA. The multiples for the transactions involving businesses with a greater proportion of facilities management or contingent workforce solutions activities are generally lower (4-5 times EBITDA and 6-7 times EBITA).

The following factors are relevant to consideration of the transaction evidence:

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- similar to UGL, many of the businesses work across a number of engineering disciplines and sectors and the implied transaction multiples reflect a blend of operations. It is therefore important to have regard to:
  - the specific services (e.g. engineering consulting, engineering and construction services, asset maintenance services) and sector focuses of each business (e.g. minerals, oil and gas, energy, civil and social infrastructure);
  - geographic footprint;
  - the extent to which the business is directly exposed to the construction cycle or the less cyclical maintenance side of the business; and
  - the time of the cycle that the transaction occurred (e.g. whether the relevant sectors are growing or declining and whether the business has been resized to meet current business activity levels or needs to be).

  Furthermore, some businesses have other assets or businesses which impact the implied multiples (e.g. GRD which operated a traditional engineering and project delivery business specialising in the mineral processing sector and a business developing projects to recover resources from municipal waste);
- SMEC is an Australian based global engineering and consulting company providing services across a range of sectors. It has a long history of providing services in emerging countries, had experienced substantial recent growth in revenue and earnings and was holding a record level of work in hand at the transaction date. The implied multiples are high reflecting both its geographical footprint and positive outlook in its target markets over the short to medium term as well as the strategic value to the acquirer;
- a number of the transactions were undertaken by existing shareholders, some to acquire 100% of the target business (e.g. Sedgman and Clough) and others to increase their interest but not acquire 100% (Leighton and Cardno). Arguably, the prices paid in these transactions do not reflect a full control premium. In the case of Sedgman and Cardno, the independent expert opined that the offers were not fair and yet the bidders in both cases acquired control (albeit effective control at less than 50% in the case of Cardno) while for Leighton and Clough, the bidders were considered to have paid control premiums consistent with those typically seen in takeover offers;
- caution is warranted when considering the forecast multiples implied by the acquisition of:
  - Broadspectrum, as they are based on projections prepared prior to the Supreme Court of Papua New Guinea ruling in relation to the regional processing centre in Manus Province and the Papua New Guinean Prime Minister's announcement that it would be shut down. Renewal of the contract with the Australian Government to provide welfare and garrison support services for the regional processing centres in Nauru and Manus Province was material to Broadspectrum's future earnings and the court ruling created substantial uncertainties; and
  - Valemus, as they are based on pro forma earnings for the year ending 31 December 2010 that were prepared for an initial public offering in July 2010 that was postponed due to market conditions;
- the multiples implied by the acquisitions of Cardno and Coffey in 2015 are high. In both cases, the businesses were primarily engineering consulting businesses and the transactions occurred at a time of a severe downturn in earnings (due to challenging market conditions) and substantial corporate weakness. The implied multiples are based on earnings that do not reflect any turnaround in performance; and
- most of the transactions have occurred since the end of the global resources sector boom and a number since construction activity in Australia has wound down as the major oil and gas and LNG sector capital projects have moved into production.

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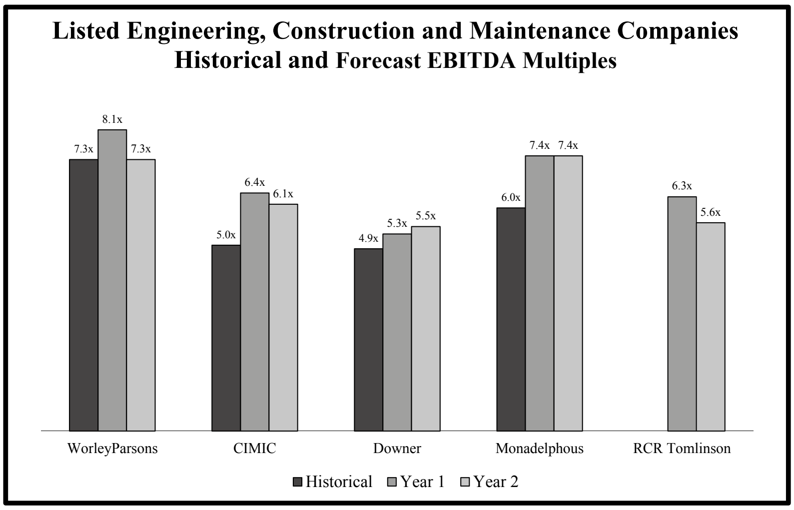
In Grant Samuel's view, one of the most comparable target businesses to UGL is John Holland. John Holland is one of Australia's leading engineering and contracting services providers operating across the social-infrastructure, energy, resources, industrial, water, wastewater, marine and transport sectors in Australia, New Zealand and South East Asia. However, caution is warranted in considering the calculated multiples for this transaction as financial information on the transaction and John Holland's operating performance is limited. Other key benchmark transactions for the valuation of UGL are:

- Tenix, which was a leading provider of long term operations and maintenance services to owners of electricity, gas, water, wastewater, industrial and resources assets in Australia and New Zealand; and
- Clough, which provided full project lifecycle services to the energy, chemicals and mining and minerals market in Australia and Papua New Guinea.

Sharemarket Evidence

Appendix 2 also contains an analysis of the earnings multiples implied by sharemarket prices on 31 October 2016 for a selection of listed Australian engineering, construction and maintenance companies. The number of listed companies in this sector on the ASX has reduced over the past six years. The selected companies are those considered most comparable to UGL in terms of size, range of activities and target sectors and have meaningful valuation metrics. While its activities are comparable (primarily to E&C/ UGL Asia), Cardno is not presented in the chart below as its trading multiples are not meaningful given its performance deteriorated substantially in FY16 and its earnings are not projected to turnaround in the short term. There are a number of other listed companies (including Lycopodium, GR Engineering, NRW, Southern Cross Electrical and Decmil) which have not been included.

The following charts summarise the multiples of forecast EBITDA and EBITA implied by sharemarket trading:



Source: Grant Samuel analysis (refer Appendix 2)
Note: Cardno's historical and forecast and RCR Tomlinson's historical multiples have been excluded from the chart as they are not meaningful.

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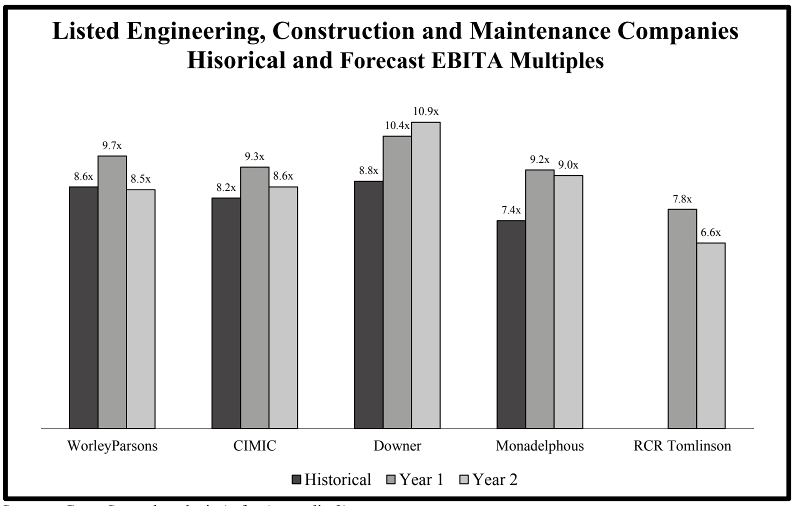

Source: Grant Samuel analysis (refer Appendix 2)
Note: Cardno's historical and forecast and RCR Tomlinson's historical multiples have been excluded from the chart as they are not meaningful.

The following factors are relevant to consideration of the comparable trading multiples:

- the multiples are based on share prices and therefore do not include a premium for control;
- Forecast Year 1 is the year ending 30 June 2017 and Forecast Year 2 is the year ending 30 June 2018 for all companies except CIMIC which has a 31 December year end. Forecast Year 1 for CIMIC is for the year ending 31 December 2016 and Forecast Year 2 is for the year ending 31 December 2017;
- none of these companies are directly comparable to UGL, although each competes with UGL across a range of services in Australia but, at different times, may partner with UGL. In this regard, they all face the same external factors as UGL, although both CIMIC, WorleyParsons and (to a lesser extent) Downer have substantial international operations;
- the charts indicate that, with the exception of RCR Tomlinson, the earnings of the listed companies are projected to decline in the current year (Forecast Year 1) and growth in the following year is limited. This likely reflects the completion of major construction projects and contracts with lower levels of ongoing activity. In fact, Downer's earnings are projected to decline further in Year 2 while Monadelphous' earnings are expected to be flat;
- for RCR Tomlinson, the smallest of the companies, the historical year (FY16) was the year where it restructured and reset the business to accommodate current activity levels. In addition, in order to diversify its business, it acquired an engineering and construction services business and entered into exclusive arrangements to expand its rail capabilities. Consequently, its historical multiple is not meaningful (and has not been shown in the chart above) while the forecast years reflect a full year contribution from the acquisition and reset business;
- Downer is generally considered the most comparable company to UGL given its breadth of service offering including transport services, technology and communications services, utilities, rail, engineering services and mining. However, it is also materially larger (with around $7 billion in revenue and EBITA in excess of $250 million) and has significant operations outside of Australia (particularly in New Zealand). Downer's business also has greater capital intensity than UGL as evidenced by EBITDA multiples around 5 times. Capital expenditure in recent periods has been

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lower than depreciation charge (approximately 75%) which arguably means the EBITA multiples of around 10 times are overstated; and

- while CIMIC has a restricted free float (HOCHTIEF has a 73% interest), there is a deep active market and its share price is likely to reflect fair value for its underlying business.

It should also be noted that:

- prior to the announcement of the Offer on 10 October 2016 UGL was trading at a Forecast FY17 EBITDA multiple of 5.1 times and a forecast FY17 EBIT multiple of 6.2 times (although the share price may have overreacted to recent announcements concerning the Ichthys Projects); and
- a review of current sharemarket ratings for international engineering, construction and maintenance companies may provide further valuation guidance. In particular, a number of the major participants in the Australian market are local operations of international companies including Wood Group PSN, KBR, Broadspectrum, John Holland and Zinfra Group. In this context, it is noted that a review of broker reports indicates that international engineering, construction and maintenance services are generally trading at higher multiples.

  In Grant Samuel's view, this review provides some (albeit limited) valuation guidance for UGL. However, evidence from international companies needs to be treated with caution as differences between Australian and international growth and inflationary expectations, industry and market conditions and differing tax regimes impact share market valuations and, therefore, implied multiples. In any event, there is sufficient evidence in the Australian markets to provide meaningful valuation guidance.

Analysis and Conclusions

The earnings multiples implied by the valuation of UGL's business operations are summarised below:

UGL Business Operations – Implied Valuation Parameters

	Section Reference	Variable ($ million)	Range of Parameters	
			Low	High
Value range ($million)			**775.0**	**825.0**
Multiple of EBITDA (times)				
FY16 (adjusted actual)	3.3, Appendix 1	91.3[27]	8.5	9.0
FY17 (forecast)	na	112.1[28]	6.9	7.4
FY17 (forecast adjusted for cost savings)	na	128.3[29]	6.0	6.4
Multiple of EBIT (times)				
FY16 (adjusted actual)	3.3, Appendix 1	67.4[30]	11.5	12.2
FY17 (forecast)	3.3	91.6	8.5	9.0
FY17 (forecast adjusted for cost savings)	na	107.8[29]	7.2	7.7

Grant Samuel considers these multiples to be reasonable in the context of a change of control transaction having regard to the available market evidence and the attributes of UGL's core business operations.

More emphasis was placed on EBIT (or EBITA) multiples as these better take account of different levels of capital intensity (e.g. capital expenditure as a percentage of EBITDA) between the various comparable entities.

27 FY16 EBITDA (before the Ichthys Projects) of $89.4 million adjusted for restructuring costs and gain on foreign exchange hedge (net increase $1.9 million) (see Appendix 1).

28 FY17 Forecast EBIT of $91.6 million plus depreciation and amortisation of $20.5 million (per Section 4.4 of the Target's Statement).

29 FY17 Forecast EBITDA and EBIT plus $16.2 million (being 50% of corporate costs).

30 FY16 EBIT (before the Ichthys Projects) of $65.5 million adjusted for restructuring costs and gain on foreign exchange hedge (net increase $1.9 million) (see Appendix 1).

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The implied forecast EBIT multiple based on EBIT adjusted for corporate cost savings of around 50% of total cost (7.2-7.7 times) is in line with the benchmark level observed in transactions of approximately 7.5-8.0 times forecast EBITA (where EBITA is equivalent to EBIT for UGL). However, the transaction multiples are based on EBITA as reported and exclude synergies such as cost savings. In this respect it is important not to double count synergies. The implied forecast EBIT multiple for UGL based on EBIT on the same basis (i.e. excluding cost savings) is 8.5-9.0 times. This represents a meaningful premium over the multiples typically observed in transactions across the sector.

Some premium for UGL can be justified:

- the business as a whole offers a highly attractive, diverse mix of businesses (across type of service and end market demand profiles) with only a moderate exposure to the resources sector;
- the primary focus of the business is on maintenance type services with recurring revenue and relatively long term contracts rather than shorter term construction projects. The E&C/UGL Asia business represents less than 25% of FY17 EBIT (before corporate costs);
- the outlook across a number of the key sectors is positive with strong activity levels and contract opportunities anticipated in rail projects, road and rail tunnels and oil and gas/LNG maintenance;
- UGL's Business Plan, while aspirational, sets out a strategy that produces strong growth in revenue and improving margins over the next few years; and
- the DCF analysis (see Section 6.4.4) demonstrates that even with relatively modest assumptions in terms of growth and margin post FY17, the NPV of the business operations cash flows is materially above the value of $775-825 million.

Equally, it is important to recognise that:

- Rail & Defence is UGL's largest single business and the outlook for key parts of that business such as Freight Rail is relatively flat;
- the FY17 Forecast represents a very significant step up from FY16 actual results (+36% at the EBIT level). While the forecast can be largely supported by work already secured, it does create some degree of risk. The multiples based on historical FY16 (the latest completed year) multiples are very high;
- the DCF analysis needs to be treated with considerable caution as it does not effectively capture the way in which the market values these kinds of businesses. Earnings multiples are universally relatively low reflecting a widespread concern that the probability of problem contracts and material losses is quite high. Even within the Australian industry there has been a number of high profile problem contracts in recent years (e.g. Multiplex's Wembley contract and Downer's Waratah train contract);
- UGL's businesses have been restructured and reset over the past 2-3 years. The businesses enjoy some level of competitive differentiation or competitive advantage (e.g. in Asset Services and Technology Systems) but it is not possible to say that overall it represents a distinctly superior business to many of the recent acquisition targets; and
- a number of the other transactions involved targets with material tax losses which may contribute to the apparent multiple paid (assuming acquirers attribute value to them). Grant Samuel has valued UGL's carried forward tax losses separately.

The implied EBIT multiples are lower than the EBITA multiples currently applying to key listed benchmarks such as Downer and Monadelphous (which, additionally, do not include a premium for control). However, it is important to recognise that:

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- Downer's EBITA multiple is overstated to the extent ongoing capital expenditure requirements are less than depreciation. Its EBITDA multiples are much lower, circa 5-5.5 times and compare to the implied EBITDA multiples for UGL of 6.9-7.4 times (albeit that Downer is a considerably more capital intensive business); and
- these two businesses have a very different earnings profile to UGL, with both having come off peak earnings in FY15 as the construction cycle declined and now facing flat (or declining) earnings in the short term.

Grant Samuel considers the implied multiples to represent a fair balancing of these factors.

6.4.3 Business Division Valuations

Grant Samuel has also analysed the valuation of UGL from the perspective of a "sum of the parts" by aggregating the value of each of UGL's divisions. The implied multiples are set out in the table below. In interpreting the table, the following issues need to be taken into account:

- the analysis is based on an allocation of the aggregate value of UGL's business operations of $775-825 million (refer to Section 6.4.1). The implied forecast multiples for FY17 are the primary reference point and are based on UGL's FY17 Forecast for each division as reliable brokers' consensus forecasts are not available (refer to Section 2.4). Accordingly, the valuation of each division is not disclosed;
- E&C and UGL Asia have been valued as a single business division on the basis that:
  - they operate in substantially the same sector (engineering and construction); and
  - UGL Asia is a relatively small business division that lacks scale but is forecast to be profitable in FY17 and to substantially grow earnings in subsequent years. This makes it difficult to value UGL Asia on a stand alone basis; and
- corporate costs adjusted for savings (50% of total cost) have been valued based on the average FY17 EBIT multiples implied by the valuation of the business divisions.

UGL's Business Divisions – Implied Multiples

Variable	Implied Multiples (times)			
	Rail & Defence	Asset Services	Technology Systems	E&C/ UGL Asia
FY17 Forecast EBITDA	6.3-6.7	6.9-7.3	7.2-7.7	5.0-5.4
FY17 Forecast EBIT	6.7-7.2	7.6-8.1	7.7-8.2	5.6-6.1

In Grant Samuel's opinion, the implied multiples for each of the business divisions are reasonable taking into account:

- their individual attributes such as competitive position, growth outlook (including order book and pipeline) and capital intensity. As with all businesses, there is a combination of strengths and opportunities as well as weaknesses and threats; and
- the market evidence as to multiples from recent acquisitions and multiples based on sharemarket prices of comparable listed companies.

Set out below is a discussion of factors relevant to each business division:

- **Rail & Defence**

  Rail & Defence is UGL's largest division in terms of contribution to earnings and is a leading provider of complete rail solutions in Australia. It has a number of positive attributes:

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- it is predominantly a maintenance business (characterised by long term contracts and recurring revenue), with minimal contribution from locomotive manufacture;
- it is well established and benefits from strong partnerships with Unipart Rail, John Holland and MTR (Passenger Rail) and the alliance with GE Transportation (Freight Rail) which enable it to provide a compelling proposition against competitors (including Downer); and
- there is considerable upside from Rail & Defence's order book, including the MTS and New Intercity Fleet contracts commencing in 2019 and the renewal of existing contracts (Pacific National rail fleet maintenance) as well as pipeline opportunities in Defence.

On the other hand:

- the outlook for Rail & Defence is relatively flat in FY17;
- there is renewal risk associated with the expiry of key contracts such as the MTM contract (which expires in 2017) and the Sydney Trains/Transport for NSW contract (which expires in 2019); and
- while there are opportunities for Defence, the barriers to entry are high and the sector is dominated by global competitors.

The balancing of these factors suggests that it is appropriate that the implied EBITDA and EBIT multiples for Rail & Defence sit between those of the higher growth Asset Services/Technology Systems businesses and the contract based E&C/UGL Asia businesses.

- **Asset Services**

  As an infrastructure maintenance and operations business with a diversified portfolio of relatively long term, low risk contracts, Asset Services warrants multiples towards the upper end of the spectrum. The industry is highly competitive and price plays a critical role in winning contracts. Clients in the oil and gas and LNG sectors are suffering from low commodity prices and price pressure is therefore being applied to all suppliers. Accordingly, it is difficult to grow margins. However, Asset Services has a solid competitive position and growth in earnings should be underpinned by:

  - the flow on benefits of recent contracts for Woodside/Cape, Stanwell Corporation, Quadrant Energy, Alcoa and BHP Billiton; and
  - the expected increase in shutdown and turnaround activity including the first shut down cycle of recently commissioned LNG plants.

  Other attractive features of the business include:

  - Asset Services' track record, long standing client relations and position in the market as the leading provider of LNG maintenance services in Australia;
  - its focus on value adding for clients (mobility, benchmarking) and its strategy to move up the value chain into operational management; and
  - the potential to extend the ATOM business model and to move into adjacent sectors (e.g. upstream coal seam gas, power generation).

- **Technology Systems**

  Technology Systems is focused on providing integrated control, signalling, safety and communications systems for new road, rail and tunnel infrastructure. This division is usually part of larger consortium projects to build new infrastructure. Contracts depend on the level of new project activity. The business has limited recurring revenue. As such, this business would normally warrant multiples towards the lower end of the spectrum. However, in Grant Samuel's view, Technology Systems deserves a higher multiple, more in line with Asset Services, because of:

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- its strong competitive position as the only participant in Australia able to provide integrated solutions across mechanical, electrical and communications systems; and
- the favourable stage of the cycle for road and rail infrastructure with a significant number of projects either being tendered or likely to come to market over the next 3-5 years. If Technology Systems can capture its share of the opportunities there should be strong growth in revenue and earnings over the next few years.

▪ **E&C/UGL Asia**

It is intuitive to expect that the value of E&C/UGL Asia would imply forecast multiples towards the low end of the range given its project driven nature (where revenue and earnings can change dramatically from year to year depending on the timing for the commencement of projects).

While market conditions remain tight, increased spend is expected in the water and waste water market and opportunities exist in the renewables sector (in particular solar) and in Asia. In this regard, E&C/UGL Asia have won key contracts in the last six months that underpin an uplift in earnings in FY17.

Furthermore, the business discipline introduced by E&C's new senior management team, its ability to provide a full suite of in-house engineering capability, its long track record and its "delivery partner" operating model means it is well positioned to take advantage of business opportunities that arise.

The FY17 multiples are relatively low but it must be recognised that FY17 earnings represent a significant uplift from FY16. Such a turnaround warrants some caution in assessing appropriate multiples.

6.4.4 DCF Analysis

Introduction and Approach

Grant Samuel has used DCF analysis as a cross check of the capitalisation of earnings based valuation.

Grant Samuel has had access to the Business Plan which could have been used as the basis for DCF analysis. However:

- the Business Plan is high level, in contrast to the FY17 Budget which is based on detailed, bottom up analysis;
- UGL is midway through a four stage process to deliver growth and returns:
  - Stage 1 (reset the business) and Stage 2 (turnaround) were successfully completed in FY15 and FY16 respectively. Although revenue was relatively flat, UGL improved its EBIT margin from 2.2% in FY15 to 3.3% in FY16;
  - Stage 3 of the process, to deliver strong top and bottom line growth, is forecast to be achieved in FY17;
- UGL has provided guidance that revenue (excluding the Ichthys Projects) is expected to increase by at least $300 million and the EBIT margin will be 4.0% in FY17. This guidance has been confirmed and further detail has been provided in Section 4.4 of the Target's Statement;
- there is market acceptance of UGL's FY17 Budget (excluding the Ichthys Projects) with the median broker consensus forecast for FY17 being consistent with the guidance provided by UGL; and
- Stage 4 of the process, from FY18 onwards, aims to achieve minimum organic growth of 10% per annum.

Generating this level of growth will be challenging over the long term. Although there has been good progress to date, UGL does not have a recent track record as a stand alone business to provide comfort that this level of growth is achievable.

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The NPV of UGL's Business Plan produces a very high value for UGL's business operations (in excess of $1.4 billion).

Given the uncertainties associated with UGL's ability to deliver consistent growth over the longer term, a more useful approach to the DCF analysis is to consider the NPV outputs from applying various assumptions for revenue growth and margins. To do so, Grant Samuel has developed a high level DCF model based on the FY17 Budget (excluding the Ichthys Projects).

The DCF model is based on a number of assumptions. However, the model does not constitute a forecast or projection by Grant Samuel of the future performance of UGL and no assurance or warranty is given that future performance will be consistent with the assumptions adopted in the model.

The DCF model forecasts nominal ungeared after tax cash flows from 1 July 2016 to 30 June 2026, a period of ten years, with a terminal value calculated at 30 June 2026 by capitalising net after tax cash flows using a perpetual growth assumption. Other key assumptions include a nominal discount rate (weighted average cost of capital ("WACC")) of 11% and a corporate tax rate of 30%. The ungeared after tax cash flows assume that tax is paid in cash from 1 July 2016 and therefore UGL's existing carried forward tax losses have been considered separately (See Section 6.6).

Discount Rate

For the purposes of the analysis, Grant Samuel has utilised a discount rate of 11%. The determination of an appropriate discount rate for the analysis is difficult:

- the cost of equity capital is not a precise or provable number nor can it be estimated with any degree of reliability. The cost of equity capital is not directly observable and models such as the Capital Asset Pricing Model ("CAPM") do no more than infer it from other data using one particular theory about the way in which security prices behave. Any estimate therefore depends on the efficacy of the theory and the robustness of the data but the available tools such as CAPM involve:
  - models which have limited empirical validity (and competing formulation);
  - simplifying assumptions;
  - the use of historical data as proxy for estimates of forward looking parameters;
  - data of dubious statistical reliability; and
  - unresolved issues.

  It is easy to over-engineer the process and to credit the output of models with a precision it does not warrant. The reality is that any cost of capital estimate or model output should be treated as a broad guide rather than an absolute truth. The cost of capital is fundamentally a matter of judgement, not merely a calculation; and
- strict application of the CAPM at the present time gives results that are arguably unrealistically low (primarily because of very low government bond rates) and are often inconsistent with other measures.

  Use of the CAPM based on current parameters would result in a cost of equity in the range 9.5-10.1% calculated as follows:
  - a risk free rate of 2.3% based on the 10 year Commonwealth Government bond rate as at 31 October 2016;
  - a market risk premium of 6%, which is similar to that used by a wide variety of analysts and practitioners (typically in the range 5-7%); and
  - an equity beta factor of 1.2-1.3 based on betas for Australian and international engineering, construction and maintenance services companies. UGL's own beta (as reported by SIRCA Technology Pty Limited) is slightly below this level but this reflects the diversification benefits of the DTZ business (as it measures the

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historical beta over a four period). Beta factors measured over shorter periods will have been impacted by the performance of the Ichthys Projects.

The resultant WACC calculation is 8.9-10.1% assuming:

- cost of debt of 4.3%, calculated as a 2% margin over the risk free rate; and
- a debt/equity mix of 0-10% debt and 90-100% equity, based on gearing for Australian and international engineering, construction and maintenance services companies. UGL's comparatively high gearing of around 16% (based on its market capitalisation prior to announcement of the Offer) is a result of the funding requirement for the Ichthys Projects. It is quite common for engineering, construction and maintenance services businesses to have no net borrowings.

In Grant Samuel's opinion, these calculations are likely to understate the true cost of capital for UGL. In this context:

- anecdotal information suggests that equity investors have repriced risk since the global financial crisis in 2007 and that acquirers are pricing offers on the basis of hurdle rates above those implied by theoretical models. However, this has yet to be translated into the measures of market risk premium (at least those based on longer term historical data). In this regard, an increase in the market risk premium of 1% (i.e. from 6% to 7%) would increase the calculated WACC range to 9.9-11.4%; and
- global interest rates, including long term bond rates, are at low levels by comparison with historical norms reflecting the liquidity still being pumped into many advanced economies to stimulate economic activity. Effective real interest rates are now extremely low and, in some cases are negative. There is an argument that these conditions have now been present for some years and are therefore the "new normal". While there is some merit in this argument, Grant Samuel does not believe the current position is sustainable over the long term and, in Grant Samuel's view, the risk is clearly towards a rise in bond yields.

  Conceptually, the interest rates used to calculate the discount rate should recognise this expectation (i.e. they should be forecast for each future period) but for practical ease market practice is that a single average rate based on the long term bond rate is generally adopted for valuation purposes. Some academics/valuation practitioners consider it to be inappropriate to add a "normal" market risk premium (e.g. 6%) to a temporarily depressed bond yield and argue that a "normalised" risk free rate should be used. This practice has become increasingly common among broker analysts. On this basis, an increase in the risk free rate to, say, 4% (still relatively low by historical standards) would increase the calculated WACC range to 10.5-11.8%.

In certain situations, other approaches such as the Gordon Growth Model ("GGM") provide more useful measures of the cost of equity. The GGM postulates that the cost of equity is equal to the current (strictly one year forecast) distribution or dividend yield plus the long term growth rate (it is essentially a restatement of the perpetuity formula). This method is appropriate where assets generate stable cash flows with steady long term growth rates (such as property assets), but is not particularly useful for UGL given the cyclical nature of the sectors in which it and its peers operate.

Analysis of research reports on UGL indicates that brokers are currently adopting WACCs in the range 10.0-11.9% with a median of 10.9%.

Having regard to these matters and the calculations and data set out above, Grant Samuel's judgement is that a reasonable discount rate to apply to the DCF analysis for UGL is current market conditions would be 11%.

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DCF Assumptions

The DCF analysis adopts 1 July 2016 as a starting date. Revenue, earnings and capital expenditure for FY17 are based on the FY17 Budget (excluding the Ichthys Projects).

The DCF model assumes that from FY18 onwards:

- revenue grows by a consistent percentage (in the range 0-10%) per annum. This compares to revenue growth of 15.2% in FY17 by UGL management;
- the EBIT margin remains at a consistent level (across a range of 2-5%). This compares to the FY17 Budget EBIT margin of 4% (forecast by UGL management);
- total overheads (excluding depreciation and amortisation) remain at the same percentage of revenue as the FY17 Budget;
- capital expenditure and depreciation are in line with the Business Plan (up to FY20). From FY21 onwards, it is assumed that capital expenditure is equivalent to the depreciation and amortisation expense, where the depreciation and amortisation expense is calculated as EBITDA (gross margin less total overheads) less EBIT;
- 50% of corporate costs are saved on an annual basis (pre tax);
- working capital is calculated as a percentage of revenue;
- a corporate tax rate of 30%; and
- a terminal growth rate of 3.0%.

Analysis and Commentary

The NPV of UGL's business operations based on the assumptions set out above is summarised in the table below:

UGL – NPV Outcomes ($ millions)

		Annual Revenue Growth (FY18+)				
		0.0%	2.5%	5.0%	7.5%	10.0%
EBIT Margin (FY17+)	2.0%	507	566	635	718	816
	2.5%	587	660	747	850	972
	3.0%	668	755	859	982	1,127
	3.5%	748	850	971	1,114	1,283
	4.0%	828	945	1,082	1,246	1,439
	4.5%	909	1,039	1,194	1,378	1,594
	5.0%	989	1,134	1,306	1,509	1,750

The shaded NPV outcomes correspond to the assumptions that are broadly consistent with Grant Samuel's value range for UGL's business operations of $775-825 million.

The analysis shows that sensible (and arguably conservative) combinations of assumptions for revenue growth and EBIT margin (e.g. annual revenue growth of 5.0% and an EBIT margin of 4.0%) can produce very high NPV outcomes compared to Grant Samuel's value range for UGL's business operations of $775-825 million. On this basis, there appears to be a disconnect between the DCF analysis and the value that can be justified based on the multiples implied by comparable transactions and trading prices of comparable listed companies (discussed in Section 6.4.2 above). In Grant Samuel's view, this disconnect reflects the nature of UGL's business operations where:

- it is exposed to the cyclical nature of the industries that it operates in, such as resources and infrastructure (albeit operating across a range of industries does provide some diversification benefits). High rates of growth are seldom sustained for long periods and some sectors can experience sharp declines;

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- it is prone to downside risk from problem contracts. While implementation of the UGL Way is designed to minimise this risk, it is not possible to avoid problem contracts altogether. In many cases, contracts only become an issue well after they are secured and due to circumstances that are unforeseen at the time; and
- there is a requirement to continually refill the pipeline of projects in a competitive market where the outcomes are binary (i.e. a project either proceeds or it does not and if it does proceed, UGL is either successful at winning the contract or it is not, in which case the contract will have been won by a competitor) and the implications for revenue can be severe.

It is extremely difficult to model scenarios that take these factors into account. However, these risks are reflected in the fact that business acquisitions clearly take place at relatively low multiples of earnings.

As a result, Grant Samuel has placed less emphasis on the DCF analysis in forming its view on the value of UGL's business operations.

6.5 Ichthys Projects

Grant Samuel estimates the value of the Ichthys Projects to be in the range \$(175)-(100) million. The basis for, and calculation of, this value estimate is discussed in the sections below.

6.5.1 Cost Estimates

UGL has raised total provisions of \$375 million in relation to the Ichthys Projects (\$175 million in relation to the CCPP Project in December 2014 and \$200 million in relation to the CCPP Project and the SMP Project in June 2016, with approximately two thirds of the provision attributable to the CCPP Project and one third attributable to the SMP Project). UGL has confirmed that this level of provisioning remains appropriate as at 31 October 2016 (see Section 4.2(b) of the Target's Statement). These provisions were determined based on detailed analysis of current estimated costs to complete the Ichthys Projects. The provisions take into account:

- current approved revenue, including claims recoveries to date. The SMP Project revenue also includes unapproved variations of \$65 million (on a 100% basis) relating to site and field instructions, directed rectification works on JKC free-issued items and a preliminary allowance for delay and disruption;
- the impact of ongoing labour inefficiencies and delay and disruption, which are assumed to continue in the form of an allowance for contingencies:
  - starting at approximately 40% for the CCPP Project, with ongoing productivity improvement initiatives to progressively reduce this over the course of the construction execution phase. The allowance has declined to approximately 20% as at 31 October 2016; and
  - approximately 30% for the SMP Project, initially in line with the productivity inefficiencies experienced on the project to date. Although productivity levels are expected to improve due to construction related activities being substantially progressed and testing and commissioning phases being started, the contingency has been retained at this level due to continued client delay and disruption; and
- an allocation of UGL management oversight costs directly attributable to the projects.

The provision raised by UGL in relation to the CCPP Project is consistent with that recognised by UGL's joint venture partner, CH2M (of US\$235.3 million).

The Ichthys Projects are well advanced. The CCPP Project is 79% complete at the joint venture level with design and procurement largely complete and construction 66% complete. The estimated completion date is October 2018. The SMP Project is 60% complete overall with an estimated completion date of October 2017. Through this process, UGL and its joint venture partners have developed a better understanding of the projects and are now in a better position to estimate costs to complete. As a result, the risks associated with estimating costs to complete should be lower than previously.

In addition, following the August 2016 settlement of claims in relation to the SMP Project, a detailed rebuild of costs to complete has been completed to align the schedule of works with expected milestone dates, including a cost out action plan to realise identified cost savings (primarily labour headcount reductions and removal of future disruption from subcontractor costs).

While UGL believes that the current estimated costs to complete the Ichthys Projects represent the best estimate at this time, there is a material amount of work to be undertaken before the projects achieve substantial completion and the CCPP Project, in particular, continues to face challenges that are eroding the contingencies included in the cost estimates and creating additional cost risk. While a revised execution strategy to completion has been finalised for the CCPP Project to minimise ongoing construction risk (i.e. reduced manning levels and a prolongation schedule), there can be no guarantee that additional cost growth will not occur.

The end result is that, as at 31 October 2016, UGL expects that the SMP Project has improved to a slightly positive position (i.e. with no requirement for any provisioning) and the CCPP Project will incur further cost growth (compared to the position at 30 June 2016), but that the provision released on the SMP Project should be sufficient to cover this additional cost growth, so that the total provision remains unchanged. However, the position of both projects may continue to move as they progress towards substantial completion.

6.5.2 Claims Recovery

The provisions and the forecast net cash flows for the Ichthys Projects do not allow for any future recovery of claims from JKC, other than $65 million (on a 100% basis) on the SMP Project which relate to site and field instructions, directed rectification works on JKC free-issued items and a preliminary allowance for delay and disruption.

Claims submitted or to be submitted in relation to the Ichthys Projects are expected to be substantial.

While UGL's 50% share of these claims represents the full upside to shareholders, typically the settlement amount is less than the claims submitted, depending on the individual merits of each claim. It would be more prudent to assume less than 100% recovery of claims having regard to the nature of the contracts and the existing precedents for claims recovery. In this regard, there are some differences between the CCPP Project and the SMP Project:

- the structure of the CCPP Project involves the joint venture between UGL and CH2M and is part of a consortium that includes GE. In contrast, the SMP Project is a more straightforward joint venture with Kentz. The need to deal with additional parties and the consortium structure creates an additional layer of complexity for all aspects of the CCPP Project;
- the CCPP Project and the SMP Project are different types of projects. The CCPP Project is a lump sum, design and construction project whereas the SMP Project is a construction only project (using JKC's designs and materials and modules supplied by JKC) with payments being a combination of a lump sum and schedule of rates. As a result, the CCPP Project, despite being closer to completion, is arguably a more risky project than the SMP Project;
- the basis for claims made by each project varies. While the majority of claims for the projects are for delay and disruption, the claims for the SMP Project also include outside of scope work (site and field instructions). The outside of scope work claims for the SMP Project are generally well defined and well documented and are therefore more certain than delay and disruption claims. This is the rationale for including $65

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million of unapproved variations in revenue for the SMP Project for the purposes of confirming the adequacy of provisioning as at 31 October 2016; and

- the expected timing for claims recovery is also likely to differ. While it is at an early stage in the process and there are a number of agreed steps to go through, the SMP Project claims are expected to be resolved more quickly than claims for the CCPP Project.

However the projects also share some similarities:

- both projects have precedents for claims recovery. The CCPP Project settled all claims up to 31 August 2015 in November 2015 and the SMP Project settled all claims up to 31 May 2016 in August 2016; and
- the joint ventures have commercial strategies available to them to encourage the negotiated settlement of claims (rather than resorting to legal proceedings which would be drawn out over a long period of time and would incur additional (legal) costs).

It is arguable that claims in relation to the SMP Project would have a greater likelihood of success and it would be appropriate to take a more conservative approach in relation to claims recoveries for the CCPP Project.

In any event, the quantum and timing of any claims recoveries is unknown at this point in time and will be subject to negotiation or a formal dispute process.

6.5.3 Analysis and Conclusion

Grant Samuel's estimate of the value of the Ichthys Projects in the range \$(175)-(100) million is based on:

- the estimated cash flows for the Ichthys Projects as at 30 June 2016 (provided with UGL's FY16 results announcement on 22 August 2016); and
- the updated estimated cash flows for the Ichthys Projects as at 31 October 2016 (disclosed in Section 4.2(b) of the Target's Statement).

The recent reductions in manning levels at the CCPP Project to mitigate cost growth associated with further client delays has resulted in an elongation of the profile of the forecast net cash flows across the two projects. These cash flows are summarised in the table below:

Ichthys Projects – Estimated Cash Flows ($ millions)

	Year ending 30 June		
	2017 forecast	2018 forecast	2019 forecast
Net cash flow as at 30 June 2016	(192.5)	9.5	-
Adjustment	7.5	(6.5)	(1.0)
Net cash flow as at 31 October 2016	**(185.0)**	**3.0**	**(1.0)**

Source: UGL

The majority of the costs are expected to be incurred in FY17 as both projects move towards substantial completion. The cash flows incorporate the payment milestones associated with the commercial settlement on the SMP Project in August 2016 as well as $32.5 million of unapproved variations predominantly relating to standard client instructed orders under the SMP Project contract (up to 31 October 2016).

The estimated cash flows have been discounted at a WACC of 11% (consistent with the discount rate applied in the DCF analysis for UGL's business operations, see Section 6.4.4 above).

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The low end estimate of the value range of $(175) million does not explicitly allow for any further claims recovery (other than $32.5 million of unapproved variations on the SMP Project referred to above). The low end estimate also approximates the value that would result from a scenario where there was an allowance for some level of future claims recovery but where this was offset by additional costs incurred.

The high end estimate of the value range of $(100) million makes explicit allowance for net claims recovery (i.e. claims recovery over and above any additional costs incurred). The allowance for net claims recovery assumes that UGL recovers a further $100 million (before tax) from claims submitted or to be submitted (in addition to the yet to be approved claims included in the forecast net cash flows) and takes into account:

- the tax that would be payable on any net claims recovered, taking into account that cash tax would not be payable until FY23 (or later) given existing tax losses; and
- the likely timing of any claims recovery (which is assumed to be FY18).

The high end estimate is inevitably more of an arbitrary guesstimate but Grant Samuel believes it to be a reasonably conservative value given factors such as the aggregate size of the claims, the basis of the claims and the historical level of claims recovered. Certainly, management is targeting a much higher success rate.

The value of the Ichthys Projects is subject to considerable uncertainty as it is not possible to project future net cash flows (including the extent of claims recoveries) with any degree of confidence. This means that any valuation conclusions need to be treated with considerable caution. The final outcomes of the Ichthys Projects could be materially worse or better than this range. The complete range of outcomes is extremely wide. On the downside, there could be further unrecovered cost overruns and zero success in claims. An unrecovered 10% overspend on the remaining costs (across both projects) would increase UGL's cash outflows by approximately $30-40 million. Certainly, the history of these projects does not inspire confidence (and costs have moved significantly even between 30 June 2016 and 31 October 2016) but there are a number of factors which suggest that the cost overrun risk has diminished significantly. On the other hand, UGL could succeed with a much higher level of claims. UGL has submitted or intends to submit substantial claims (in addition to previous settlements) up to 31 October 2016, with the potential for further claims. While UGL is almost certain not to succeed with all of its claims, it is reasonable to believe that it will realise at least some of them.

However, it would not be helpful for shareholders to incorporate the full range of potential outcomes. For the purposes of this report, Grant Samuel has adopted a value range of $(175)-(100) million (net of tax). Obviously, the final outcome could be materially better or worse and shareholders could legitimately take a very different view.

6.6 Other Assets and Liabilities

UGL's other assets and liabilities have been valued in the range of $(5.9)-9.1 million as follows:

UGL – Other Assets and Liabilities ($ millions)

	Section Reference	Value Range	
		Low	High
Loan to MTM	3.4	9.8	9.8
Unlisted investment	3.4	0.1	0.1
DTZ escrow account	3.4, refer below	5.0	15.0
Income tax losses	3.4, refer below	40.0	50.0
Restructure provision	3.4	(8.1)	(8.1)
Onerous leases provision	3.4	(12.7)	(12.7)
30% outside equity interest in UGL Unipart	refer below	(40.0)	(45.0)
Value of other assets and liabilities		**(5.9)**	**9.1**

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Grant Samuel has adopted a value of $5-15 million for the DTZ escrow account. While the balance in the account is around £19.5 million (~$26 million), there are claims on foot and it is not possible at this time to make a reliable estimate of the balance that UGL will receive (if any) when the escrow period expires in December 2017. While the value represents 20-60% of the current balance, the final outcome could be materially better or worse (potentially zero).

At 30 June 2016, UGL had carried forward income tax losses totalling $385 million, primarily relating to Australian losses. While UGL's base business will utilise some tax losses in FY17, further income tax losses will be created in FY17 due to the Ichthys Projects and Australian income tax is not expected to be paid for around seven years. While it is debateable whether tax losses should be attributed any value, in this case Grant Samuel has attributed value to the tax losses on the basis that:

- UGL is currently generating taxable income from its base business and its performance is expected to improve in the short term;
- the positive cash flow from the tax savings over the next 2-3 years will be retained by the business and used to pay down debt; and
- in the longer run, UGL may recommence paying dividends and, in this situation, it is arguable that tax losses have limited value to Australian shareholders to the extent dividends are unfranked.

The value attributed to the tax losses has been based on the NPV of the tax payments saved under a number of scenarios at a discount rate of 11%. The value range adopted represents 50% of the NPV and takes into account that there is an element of uncertainty associated with utilisation of the losses.

Grant Samuel has attributed a value in the range $40-45 million to the 30% interest in UGL Unipart. $3.1 million of UGL's NPAT for FY16 and $5.6 million of UGL's net assets as at 30 June 2016 were attributable to this outside interest. It is appropriate to make an allowance for this interest as the value of UGL has been prepared on the basis that it controls 100% of UGL Unipart. The value of $40-45 million is based on multiples implied by Grant Samuel's valuation for Rail & Defence and takes into account UGL Unipart's net cash as at 30 June 2016.

No separate value has been attributed to:

- UGL's interests in equity accounted associates and joint ventures (book value of $16.6 million at 30 June 2016) as the earnings of equity accounted investees have been included in the value of UGL's business operations (see Section 3.3);
- accumulated franking credits at 30 June 2016 ($3.2 million) as while they may have value to some shareholders (if there was expectation of dividend payments) they do not affect the underlying value of the company itself; and
- potential shareholder class actions in relation to the disclosures in late 2014 regarding Ichthys Projects. One class action has been defended by UGL while the other is yet to become a court action, so it is not possible to make any estimate.

6.7 Net Borrowings

UGL's net borrowings for valuation purposes are $66.3 million. This amount is based on drawn borrowings ($150.5 million) and cash and deposits ($85.8 million) at 30 June 2016 plus a mark to market of foreign currency forward contracts relating to borrowings (negative $1.6 million). In this regard, it should be noted that the values attributed to UGL's business operations and the Ichthys Projects by Grant Samuel reflect cash flows from 1 July 2016.

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7 Evaluation of the Offer

7.1 Conclusion

In Grant Samuel's opinion, the Offer is fair and reasonable, in the absence of a superior offer.

7.2 Fairness

Grant Samuel has estimated the full underlying value of UGL, including a premium for control, to be in the range $3.11-3.94 per share. The valuation is set out in Section 6 of this report. The value is the aggregate value of the estimated value of UGL's business operations together with other assets less external liabilities and any non trading assets or liabilities. In particular:

- the value of UGL's base business and the Ichthys Projects have been valued separately;
- the value of the base business has been estimated having regard to:
  - valuation of the businesses as a single enterprise utilising both capital of earnings (primarily EBIT and EBITDA) and a high level DCF analysis; and
  - a "sum of the parts" approach, estimating a value for each of UGL's operating divisions applying the capitalisation of earnings methodology.

  The valuation takes into account the different strengths, weaknesses, market position, track record, inherent risks and outlook for each division. In this context:
  - the track record over the past several years, even leaving aside the Ichthys Projects, has been patchy with weak project management disciplines and several significant restructurings;
  - the sectors in which UGL operates are highly competitive and margins are constantly under pressure. It is challenging to develop clear and sustainable competitive advantages; and
  - UGL is a contracting business and while some divisions enjoy relatively long term contracts with stable earnings, there is a continuing requirement to replenish the pipeline. There are significant longer term contracts facing renewal risk over the next three years (e.g. the MTM franchise, Sydney Trains maintenance).

  On the other hand:
  - the restructurings and turnarounds have been completed and the new management team has overhauled the project management process. Significant expense was incurred over FY14-FY16 but minimal additional costs are anticipated going forward;
  - the overall portfolio of businesses provides a considerable diversity of exposure to end market demand profiles (rail, defence, road, oil and gas, mining, water, power, renewable energy generation). The base business has a modest exposure to the resources sector (particularly construction) and a high exposure to infrastructure;
  - UGL does enjoy a differentiated market position in a number of its divisions, such as Asset Services (employed shutdown workforce), Technology Systems (full service offering across electrical, mechanical and communications) and some parts of the E&C business (water). In others, it has a strong reputation and solid customer relationships; and
  - the outlook is positive across several of the divisions with significant contracts coming on stream and other opportunities in the short term to medium term:
    - Rail & Defence: New Intercity Fleet maintenance and MTS;
    - Asset Services: new or extended contracts with Stanwell Corporation, Quadrant Energy, Alcoa and BHP Billiton as well as increased LNG shutdown and turnaround activity;
    - Technology Systems: ramp up of Sydney Metro Northwest and NorthConnex Motorway and numerous rail and road projects that are underway or planned;
    - E&C: new solar projects and grid connections; and

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- UGL Asia: extension of Asset Services activities in oil and gas to Asia; and

- the value reflects a value for the Ichthys Projects of $(175)-(100) million. The low end estimate reflects UGL's provisioning at 30 June 2016 and the associated forecast of net cash outflow over the remaining estimated life of the contracts (mostly expected to arise in FY17). The high end assumes that UGL recovers $100 million (before tax) from the claims lodged. This estimate is inevitably more of an arbitrary guesstimate but Grant Samuel believes it to be a reasonably conservative value given factors such as the aggregate size of the claims, the basis of the claims and the historical level of claims recognised. Certainly, management is targeting a much higher success rate.

  It is, of course, recognised that the final outcome of the Ichthys Projects could be materially worse or better than this range. There could be further unrecovered cost overruns and zero success in claims. Alternatively, UGL and its partners could succeed with a much higher level of claims. However, it would not be helpful for shareholders if the valuation range incorporated the full gamut of potential outcomes. Accordingly, it is necessary to "make a call" even if there is a limited ability to project outcomes with any confidence or reliability given the evolving situation.

The Offer Price of $3.15 per share falls within the value range of $3.11-3.94 per share. Accordingly, the Offer is fair. The bottom of the value range represents the relevant threshold for fairness. Any price above the bottom of the range is, by definition, fair.

The value range exceeds the price at which, based on current market conditions, Grant Samuel would expect UGL to trade on the ASX in the absence of a takeover offer (or speculation as to an offer).

7.3 Reasonableness

As the Offer is fair it is also reasonable. In any event, there are a number of factors that support reasonableness.

The issues relating to the Ichthys Projects in particular create a risk perspective that impacts on a shareholder's decision regarding the Offer. The outcome of the Ichthys Projects is fundamentally uncertain at this point in time. Grant Samuel has taken a view and adopted a value range of $(175)-(100) million but:

- the low end assumes no uncovered costs beyond the current level of provisioning put in place by UGL as at 30 June 2016 (and confirmed as at 31 October 2016);
- the full range of potential outcomes is materially wider than Grant Samuel's range;
- it would be open for shareholders to adopt a different approach or value to Grant Samuel; and
- the history of the Ichthys Projects and the general uncertainty attached to project costs (particularly those with a troubled history) suggest shareholders would be justified in adopting a cautious approach (costs estimates for the CCPP Project have continued to move around adversely even over the last 2-3 months).

In this context, if any additional unrecoverable costs (net of any further claims success) are assumed, this would decrease the low end of the value range. Every $10 million reduces the range by 6 cents per share. Shareholders with a low appetite for risk may find the certainty of $3.15 in cash attractive in these circumstances particularly having regard to:

- the inherent difficulties of estimating project costs in situations where the project has proved troublesome and continues to be afflicted by delays, procurement issues and scheduling challenges (costs have moved materially between 30 June 2016 and 31 October 2016);
- the extent of the premium it represents over the UGL share price prevailing prior to the announcement of the Offer on 10 October 2016:

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UGL – Premium over Pre-announcement Prices Implied by the Offer		
Period	**UGL Price/VWAP**	**Premium**
Closing price on 7 October 2016 – Pre-announcement price	$2.14	47%
1 week ending 7 October 2016 – VWAP	$2.15	46%
1 month ending 7 October 2016 – VWAP	$2.17	45%
3 months ending 7 October 2016 – VWAP	$2.36	34%
6 months ending 7 October 2016 – VWAP	$2.46	28%
12 months ending 7 October 2016 – VWAP	$2.54	24%

The level of premiums observed in takeovers varies depending on the circumstances of the target and other factors (such as the potential for competing offers) but tend to fall in the range 20-35%. The premiums implied by the Offer exceed this "norm".

The UGL share price immediately prior to announcement of the Offer on 10 October 2016 was particularly weak having drifted down from $2.77 on 22 August 2016 following announcement of the FY16 results to $2.14 on 7 October 2016 (after having fallen from $3.45 in June 2016).

It is almost certainly the case that the market perceptions of value are clouded by the events surrounding the Ichthys Projects. The additional provisioning (of $200 million) was significant in its own right and would have shaken market confidence in both UGL's management of the project and its broader business. There are valid concerns as to the potential for additional costs on these projects (particularly given the history) and these led to further concerns about the impact on UGL's balance sheet and the possibility of a capital raising. The continued absence of a dividend would also have adversely affected the share price.

It is arguable that the share price at 7 October 2016 might represent an overreaction (representing a reduction in market value greater than the tax effected cost of the additional provisions and even more if some allowance is made for potential claims recoveries) but this price is the "reality" and there was a reasonable level of trading in UGL shares over this period;

- the relatively high debt position anticipated by UGL by the end of FY17 ($174-214 million). Most of UGL's peers have very low debt levels (and even positive cash in some cases) because of the risks and fluctuation is inherent in the business. While this level of debt may be manageable (and UGL is in the process of obtaining facilities to cover the expected requirement), it does significantly reduce the "margin for error", particularly in a context where the final outcome for Ichthys Projects is highly uncertain.

  As a listed company, UGL has access to capital and could, for example, undertake a rights issue to alleviate its debt position. However, that would depend on the level of support from existing shareholders and there is the potential for significant value dilution for those shareholders not participating;

- the likely absence of any dividends at least over the next two to three years;

- the inherent uncertainty as to the value of tax losses (attributed a value of $40-50 million in the valuation); and

- the risks relating to renewal of key contracts such as the MTM franchise and the Sydney Trains maintenance contract. There are no reasons to assume they will not be renewed but the risk is always extant.

Other factors to consider include the following:

- in the absence of the Offer or a similar transaction, shareholders will only be able to realise their investment by selling on market at a price that does not include any premium for control and would incur transaction costs (i.e. brokerage). In these circumstances (and assuming there was no speculation as to an alternative or revised offer), it is likely that UGL shares would trade, under current market conditions, at prices below $3.15. That discount may be

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significant, at least while there remains a substantial degree of uncertainty as to the final outcome for the Ichthys Projects; and

- the Offer is unconditional. There is no minimum acceptance condition and accordingly CIMIC's shareholding could ultimately be anywhere between its current level of 13.8% and 100%. If CIMIC does not reach the 90% compulsory acquisition level, non accepting shareholders will remain investors in UGL. UGL's free float could become restricted if CIMIC materially increases its shareholding from current levels. This could reduce liquidity materially and adversely impact the price at which UGL shares trade. In a worst case scenario, if CIMIC obtained a very high shareholding and UGL failed to meet the necessary shareholders spread tests, UGL could be removed from the ASX.

On the other hand, the Offer Price is only just above the bottom of the value range and even assuming a very modest level of success with future claims from the Ichthys Projects (say $10 million) would push the bottom of the range above the Offer Price. Those shareholders with a stronger appetite for risk may put more emphasis on:

- the upside potential from the claims relating to the Ichthys Projects;
- the scope for re-rating of UGL shares once the Ichthys Projects have been closed out and the market can focus on the base business;
- the upside potential from the high level of contract opportunities available over the next two to three years; and
- the potential for synergies that CIMIC may be able to bring to the UGL business (as flagged in its Bidder's Statement) if it succeeds in securing more than 50% of UGL.

Such shareholders may be justified in not accepting the Offer and the unconditional nature of the Offer means they can do so without impacting on other shareholders in terms of the outcome of the Offer (a choice to not accept the Offer does not deprive other shareholders of the opportunity to receive $3.15). However, non accepting shareholders need to recognise that:

- the share price is likely to trade initially below $3.15 in the absence of an offer;
- corporate cost savings will not be available if UGL remains a separate listed company;
- if CIMIC acquires more than 50% of UGL:
  - there are risks to a number of contracts through "change of control" clauses that could have an adverse impact on future profitability; and
  - a review event will occur under existing borrowing facilities and, if financial close has occurred, the new borrowing facilities; and
- there would be an adverse impact on the liquidity of the market for UGL shares if CIMIC increases its shareholding materially prior to the Offer closing and, in these circumstances, remaining shareholders should carefully consider their position.

As at the date of this report, CIMIC still has a shareholding in UGL of only 13.84%. It has not acquired any additional shares on market as UGL shares have consistently traded above $3.15. The only other shareholder with an interest greater than 10% is Allan Gray Australia Pty Ltd, an institutional "value based" shareholder, with 18.8%. Accordingly, there is, at present, no impediment to a third party making an alternative offer for UGL and if CIMIC's shareholding remained at, or close to, the current level that possibility would remain. In this context:

- UGL's business would be attractive to a number of different acquirers particularly given its broad spread of exposures and the emphasis on infrastructure type assets and operations and maintenance rather than construction contracts. Such parties might include:
  - overseas based businesses focused on engineering and construction and/or asset maintenance; and
  - private equity funds.

  Australian competitors could also be interested but they do face some financial and other constraints; and

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- UGL has held discussions with interested parties over the past two years (although none of these resulted in a proposal).

The structure of the bid with its unconditionality giving CIMIC the right to acquire shares may mean alternative acquirers have a limited time window to respond. However, UGL has been "in play" since 10 October 2016 and it may take some time, if ever, before CIMIC's shareholding increases to a level (say, 30%) sufficient to effectively block competing offers. This should have provided ample time for a competing offer to be developed.

If no alternative offer is forthcoming during the offer period then it would be reasonable to assume that the Offer Price represents the maximum value at this point in time.

7.4 Other Matters

Other factors that shareholders should take into consideration are:

- UGL shares have traded above \$3.15 since the announcement of the Offer. Consequently, a cash price in excess of \$3.15 could be currently achieved by selling on market, albeit transaction costs would be incurred;
- accepting shareholders will be treated as having disposed of their UGL shares for tax purposes. A capital gain or loss may arise on disposal depending on the cost base for the UGL shares, the length of time held, whether the securities are held on capital or revenue account and whether the shareholder is an Australian resident for tax purposes. Details of the taxation consequences are set out in Section 8 of the Target's Statement. If in any doubt, shareholders should consult their own professional adviser; and
- if CIMIC does not acquire 100% of UGL, UGL will incur transaction costs of approximately \$12 million (including legal and other adviser's fees, as well as printing and mailing costs) as a stand alone entity.

7.5 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether, in its opinion, the Offer is fair and reasonable to shareholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Offer, the responsibility for which lies with the directors of UGL.

In any event, the decision whether to accept or reject the Offer is a matter for individual shareholders based on each shareholder's views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Offer, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in UGL. This is an investment decision upon which Grant Samuel does not offer an opinion and independent of a decision on whether to accept or reject the Offer. Shareholders should consult their own professional adviser in this regard.

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8 Qualifications, Declarations and Consents

8.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally) and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 530 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Caleena Stilwell BBus FCA F Fin GAICD, Stephen Wilson BCom MCom(Hons) CA(NZ) SF Fin and Jaye Gardner BCom LLB (Hons) CA SF Fin GAICD. Each has a significant number of years of experience in relevant corporate advisory matters. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

8.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Offer is fair and reasonable to UGL shareholders. Grant Samuel expressly disclaims any liability to any UGL shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Target's Statement issued by UGL and has not verified or approved any of the contents of the Target's Statement. Grant Samuel does not accept any responsibility for the contents of the Target's Statement (except for this report).

8.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with UGL or CIMIC or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Offer.

Grant Samuel had no part in the formulation of the Offer. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of $595,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Offer. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

8.4 Declarations

UGL has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving negligence or wilful misconduct by Grant Samuel. UGL has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by

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any person. Any claims by UGL are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to UGL and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. In particular, following the provision of the full final draft report to UGL on 2 November 2016, Grant Samuel identified an error in the calculation of the value for the outside equity interest in UGL Unipart (Section 6.6). This resulted in an increase in the equity value of UGL (3 cents per share). There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

8.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Target's Statement to be sent to shareholders of UGL. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

8.6 Other

The accompanying letter dated 7 November 2016 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
7 November 2016

Grant Samuel & Associates

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Appendix 1

Historical Financial Performance

1 Adjusted Financial Performance by Division

The table below reconciles UGL's reported segment financial performance to the division performance presented in Section 4 of this report. Grant Samuel has adjusted UGL's EBITDA and EBIT (per segment reporting) to exclude $7.5 million of non-recurring restructuring costs which were reported in divisional earnings for E&C and UGL Asia and for the gain on the USPP foreign exchange hedge reported in Corporate in FY16.

UGL - Financial Performance by Division (proportional) ($ millions)				
	Report Section Reference	Year ended 30 June		
		2014 actual	2015 actual	2016 actual
Revenue (proportional) (as reported)				
Rail & Defence		960.0	977.9	941.7
Asset Services		455.8	463.2	557.4
Technology Systems		301.3	231.3	199.5
Engineering & Construction		462.3	507.8	253.9
UGL Asia		33.9	19.7	38.0
Ichthys Projects		63.1	128.6	295.3
Eliminations		(14.7)	(8.0)	(4.1)
Total Revenue (proportional)	**Section 3.3**	**2,261.7**	**2,320.5**	**2,281.7**
EBITDA (proportional) (as reported)		**87.5**	**(93.4)**	**(107.5)**
Add: Restructuring costs included in E&C result		-	-	5.0
Add: Restructuring costs included in UGL Asia result		-	-	2.5
Less: Gain on USPP foreign exchange hedge in Corporate		-	-	(5.6)
EBITDA		**87.5**	**(93.4)**	**(105.6)**
Rail & Defence		52.4	38.4	54.5
Asset Services		15.5	11.1	28.1
Technology Systems		23.6	12.3	13.0
Engineering & Construction		31.4	51.0	23.3
UGL Asia		(3.7)	(7.8)	(4.5)
Ichthys Projects		-	(174.9)	(196.9)
Corporate / Unallocated		(31.7)	(23.5)	(23.1)
Total EBITDA (proportional)		**87.5**	**(93.4)**	**(105.6)**
Depreciation and amortisation (proportional) (as reported)				
Rail & Defence		(8.0)	(3.9)	(4.7)
Asset Services		(4.1)	(2.5)	(4.0)
Technology Systems		(2.5)	(2.0)	(1.2)
Engineering & Construction		(3.9)	(9.1)	(4.4)
UGL Asia		-	(0.1)	(0.3)
Ichthys Projects		-	(0.1)	(3.1)
Corporate / Unallocated		(7.1)	(16.3)	(9.3)
Total Depreciation and amortisation (proportional)		**(25.6)**	**(34.0)**	**(27.0)**
EBIT (proportional) (as reported)	**Section 3.3**	**61.9**	**(127.5)**	**(134.5)**
Add: Restructuring costs included in E&C result		-	-	5.0
Add: Restructuring costs included in UGL Asia result		-	-	2.5
Less: Gain on USPP foreign exchange hedge in Corporate		-	-	(5.6)
EBIT		**61.9**	**(127.5)**	**(132.6)**
Rail & Defence		44.4	34.5	49.9
Asset Services		11.4	8.5	24.1
Technology Systems		21.1	10.3	11.7
Engineering & Construction		27.5	41.9	18.9
UGL Asia		(3.7)	(7.9)	(4.8)
Ichthys Projects		-	(175.0)	(200.0)
Corporate / Unallocated		(38.8)	(39.8)	(32.4)
Total EBIT (proportional)		**61.9**	**(127.5)**	**(132.6)**

Source: UGL and Grant Samuel analysis

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2 Other Significant Items (net)

Other significant items (net) (excluding the provision for the Ichthys Projects) reported by UGL in the period FY14-FY16 is summarised below:

UGL – Other Significant Items (net) (as reported) ($ millions)				
	Report Section Reference	Year end 30 June		
		2014 actual	2015 actual	2016 actual
Restructuring and redundancy costs		(36.0)	(43.6)	-
Gain on sale of property		15.3	-	-
Other		3.5	-	-
Claim resolution and settlement		-	(39.8)	-
Impairment of goodwill		-	(63.0)	-
Impairment of development costs		-	(51.3)	-
Writedown in tender costs		-	(18.9)	-
Provision for onerous leases		-	(13.1)	-
Impairment of joint venture investment		-	(9.7)	-
Inventory writedown		-	(5.3)	-
Gain on USPP foreign exchange hedge		-	-	-
Total	**Section 3.3**	**(17.2)**	**(244.7)**	**-**

Source: UGL

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Appendix 2

Market Evidence

Valuation analysis involves the review of earnings and other multiples that buyers have been willing to pay for similar businesses in the recent past and a review of the multiples at which shares in comparable listed companies trade on stockmarkets. This analysis will not always lead to an obvious conclusion of an appropriate range of multiples as there will often be a wide spread of multiples. It is necessary to consider the particular attributes of the business being valued as well as the prevailing economic conditions.

UGL Limited ("UGL") provides engineering, construction and maintenance services to diversified end markets, primarily in Australia and New Zealand. Grant Samuel's review of evidence of valuation parameters has encompassed transactions and listed companies involved in similar activities in Australia.

1 Valuation Evidence from Transactions

Set out below is a summary of transactions that Grant Samuel considers are relevant to the valuation of UGL. Only transactions since the commencement of the economic downturn in 2009 for which there is sufficient information to calculate meaningful valuation parameters have been presented. The transactions are categorised by primary activity:

Recent Transaction Evidence

Date	Target	Transaction	Consideration[1] ($ millions)	EBITDA Multiple[2] (times)		EBITA Multiple[3] (times)		EBIT Multiple[4] (times)	
				Historical	Forecast	Historical	Forecast	Historical	Forecast
Infrastructure Services									
Dec 14	John Holland Group	Acquisition by China Communications Construction Company	853	na[5]	na	9.4	7.7	9.4	7.7
Oct 14	Tenix Holdings Australia Pty Limited	Acquisition by Downer EDI Limited	300	7.3	na	8.6	na	10.0	10.0
Mar 14	Leighton Holdings Limited	Acquisition of additional 10.6% by HOCHTIEF AG	7,630	4.5	5.0	8.4	9.2	8.6	9.5
Nov 13	T & C Services Pty Limited	Acquisition by SKILLED Group Limited	34	4.8	na	na	na	na	na
Jul 13	Clough Limited	Acquisition of 38.37% by Murray & Roberts Holdings Limited	1,135	7.8	7.2	8.3	7.6	8.3	7.6
Oct 12	G&S Engineering	Acquisition by Calibre Group Limited	64-71	na	5.7-6.0	na	na	na	na
Engineering Services									
Jun 16	Ausenco Limited	Acquisition by Resource Capital Fund VI	80	na	5.5[6]	na	na	na	na
May 16	SMEC Holdings Limited	Acquisition by Surbana Jurong Private Limited	389	10.2	na	12.1	na	12.1	na
Jan 16	Sedgman Limited	Acquisition by CIMIC	253	5.3	4.5	8.5	6.2	8.5	6.2
Oct 15	Coffey International Limited	Acquisition by Tetra Tech, Inc.	109	7.4	na	11.7	na	11.7	na

1 Implied equity value if 100% of the company or business had been acquired.
2 Represents gross consideration divided by EBITDA. Gross consideration is the sum of the equity and/or cash consideration plus borrowings net of cash. EBITDA is earnings before net interest, tax, depreciation and amortisation, investment income and significant and non-recurring items.
3 Represents gross consideration divided by EBITA. EBITA is earnings before net interest, tax, amortisation of acquired intangibles, investment income and significant and non-recurring items.
4 Represents gross consideration divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.
5 na = not available.
6 Based on "through the cycle" EBITDA assessed by independent expert for Ausenco.

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Recent Transaction Evidence										
Date	Target	Transaction	Consid-eration[1] ($ millions)	EBITDA Multiple[2] (times)		EBITA Multiple[3] (times)		EBIT Multiple[4] (times)	
				Historical	Forecast	Historical	Forecast	Historical	Forecast
Oct 15	Cardno Limited	Acquisition of further 21% by Crescent Capital Investments Pty Limited	584	9.2	8.5	12.0	11.0	13.9	12.2
Sep 13	Sinclair Knight Merz Holdings Limited	Acquisition by Jacobs Engineering Group Inc.	1,300	5.9	6.2	6.6	7.1	6.8	7.3
May 12	Unidel Group	Acquisition by AMEC	27-41	4.1-6.3	na	5.1-8.0	na	5.1-8.0	na
Nov 09	Evans & Peck	Acquisition by WorleyParsons	87	4.6	na	4.8	na	4.8	na
Jun 09	GRD Limited	Acquisition by AMEC	106	4.2-5.4	6.7-7.9	5.0-6.4	7.3-9.4	5.0-6.4	7.3-9.4
Other Services									
Apr 16	Broadspectrum Limited	Acquisition by Ferrovial S.A.	769	4.6	4.0	7.0	6.0	7.6	6.4
Jun 15	SKILLED Group Limited	Acquisition by Programmed Maintenance Services Limited	399	5.6	6.6	6.6	7.7	7.5	8.5
Dec 14	Thiess Services and Leighton Contractor Services	Acquisition of 50% by Apollo Global Management LLC	1,075	na	4-5[7]	na	6-9[7]	na	6-9[7]
Dec 10	Valemus Australia Pty Limited	Acquisition by Lend Lease Corporation Limited	960	4.3	3.9	5.2	4.8	5.3	4.9

Source: Grant Samuel analysis[8]

A brief summary of each transaction is set out below:

John Holland Group Pty Limited / China Communications Construction Company Limited

On 12 December 2014, Shanghai listed company China Communications Construction Company Limited announced that it had acquired John Holland Group Pty Ltd ("John Holland") from Leighton Holdings Limited ("Leighton") (now renamed CIMIC Group Limited ("CIMIC") for $853 million (which Leighton announced equated to an enterprise value of $1.15 billion). John Holland is one of Australia's leading engineering and contracting services providers operating across the social-infrastructure, energy, resources, industrial, water, wastewater, marine and transport sectors in Australia, New Zealand and South East Asia. Financial information on the transaction and John Holland's operating performance is limited, although broker commentary indicated that John Holland's 31 December 2013 earnings were expected to be a cyclical peak. The historical multiples presented in the table represents the median of available broker forecasts for the year ending 31 December 2014, however, caution is warranted as the range of available forecasts is wide. John Holland's actual result for the year ended 31 December 2013 implies lower multiples (7.8 times EBITA compared to 9.4 times).

Tenix Holdings Australia Pty Limited / Downer EDI Limited

On 20 October 2014, Downer EDI Limited ("Downer") announced the acquisition of all of the shares in Tenix Holdings Australia Pty Limited ("Tenix") for $300 million on a cash and debt free basis. Tenix is a leading provider of long term operations and maintenance services to owners of electricity, gas, water, wastewater, industrial and resources assets in Australia and New Zealand. As Tenix is privately owned, only limited financial information is available. Downer advised that although revenue in 2015 is expected to be lower than in the year ended 30 June 2014 due to the completion of resources projects, EBIT is expected to be broadly in line with 2014 ($29.4 million).

7 Estimated by reference to broker analysis.

8 Grant Samuel analysis based on data obtained from IRESS, S&P Capital IQ, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

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Leighton Holdings Limited / HOCHTIEF AG

On 13 March 2014, HOCHTIEF AG ("HOCHTIEF") announced that it had entered into a bid implementation agreement with its ASX listed subsidiary Leighton to revise its intended conditional, proportional off-market offer to acquire 3 of every 8 shares held by Leighton shareholders $22.50 per share from $22.15 per share. HOCHTIEF is Leighton's largest shareholder with a 58.64% interest (as at 31 March 2015) and the offer will increase its interest in Leighton to a maximum of between 74.03% and 74.15% (an increase of around 15.5%), depending on the number of Leighton options that are exercised prior to the end of the offer. Leighton has a number of significant investments in listed and unlisted entities and, in order to calculate the multiples for Leighton's business operations implied by the transaction, the equity value has been adjusted by reference to the values attributed to investments, other assets and liabilities and net debt by the independent expert. The multiples implied by this transaction are relatively low as HOCHTEIF already effectively controlled Leighton.

T & C Services Pty Limited / SKILLED Group Limited

On 12 November 2013, Thomas & Coffey Limited announced that it had entered into a conditional agreement to sell the majority of its business and brands to SKILLED Group Limited ("SKILLED") for $33.5 million. Following shareholder approval, the sale was implemented in February 2014 by the sale of wholly owned subsidiary T & C Services Pty Limited ("T & C Services") to SKILLED. T & C Services provides a broad range of maintenance and asset management services to the manufacturing, mining, heavy industry and utilities sectors in New South Wales and Queensland. The multiples implied by this transaction are relatively low reflecting the financial distress of the vendor. SKILLED proposes to integrate this business with its ATIVO business and to derive ongoing synergies.

Clough Limited / Murray & Roberts Holdings Limited

On 31 July 2013, Clough Limited ("Clough") announced that it had received a conditional proposal from its 61.6% shareholder Murray & Roberts Holdings Limited ("Murray & Roberts") to acquire all of the outstanding shares in Clough that it did not already own for $1.46 per share. Clough provides full project lifecycle services to the energy, chemicals and mining and minerals markets in Australia and Papua New Guinea. It operates primarily through joint ventures with domestic and international partners. The multiples implied by this transaction are calculated by reference to Clough's proportional share of joint ventures. Although Murray & Robert's already effectively controlled Clough the control premiums implied by this transaction are consistent with those typically seen in takeover offers.

G&S Engineering Services Pty Ltd / Calibre Group Limited

On 10 October 2012, Calibre Group Limited ("Calibre") announced the acquisition of G&S Engineering Services Pty Ltd ("G&S Engineering"). G&S Engineering is a Queensland based provider of operations, maintenance and asset management services to the coal sector with revenue of around $279 million. The consideration for G&S Engineering includes an initial cash and scrip payment with a value of around $53.4 million and a deferred cash payment on achievement of certain 2013 financial performance milestones by G&S Engineering of approximately $18 million, with a floor of $11 million. The multiples have been calculated by reference to the minimum ($64.4 million) and the maximum ($71.4 million) consideration under the acquisition agreement.

Ausenco Limited / Resource Capital Fund VI L.P.

On 14 June 2016, Ausenco Limited ("Ausenco") announced that it had entered into a scheme implementation agreement with Resource Capital Fund VI L.P. ("RCF") under which RCF would acquire all of the shares in Ausenco for $0.40 per share. RCF is a United States based private equity fund focussed on investments in mining companies and mining services companies. Ausenco provides engineering, construction and project management services to the resources and energy markets. The minerals and metals processing and process infrastructure sectors represented around 80% of revenue in 2015 and over 70% of total revenue was generated in the Americas.

Since 2012, Ausenco has faced deteriorating market conditions in the resources sector and it implemented substantial restructuring and downsizing initiatives over the 2014-2015 period. However, Ausenco remained

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under substantial financial pressure and on 1 February 2016 agreed to a US$16.5 million financing package with RCF. RCF also entered into discussions with Ausenco's banks to replace them and in April 2016 became Ausenco's sole secured lender. Difficult markets have persisted and in May 2016 Ausenco received a proposal from RCF to privatise. No multiples can be calculated for this transaction as Ausenco generated a loss at EBITDA level in 2015 and no brokers currently publish research on the company. However, based on the "through the cycle" earnings assessed by the independent expert for the transaction, the transaction implies a forecast EBITDA multiple of 5.5 times.

SMEC Holdings Limited / Surbana Jurong Private Limited

On 11 May 2016, SMEC Holdings Limited ("SMEC") announced that it had entered into a scheme implementation agreement with Surbana Jurong Private Limited ("Surbana Jurong") under which Surbana Jurong would acquire all the shares in SMEC for $1.90 per share. SMEC's origins were in the Snowy Mountains Hydro Electric Scheme developed between 1949 and 1974. Following completion of that project SMEC provided technical services to the Australian Government on international aid projects. It was privatised in 1993 by sale of shares to employees. SMEC is now a global engineering consulting company providing services across a wide range of sectors. Surbana Jurong is 100% owned by Temasek Holdings (Private) Limited (Republic of Singapore) and provides urban, infrastructure and engineering services globally with offices across Asia, Africa and the Middle East. The acquisition of SMEC will enhance its geographical footprint and strengthen its offering. Since the year ended 20 June 2013, SMEC has experienced growth in revenue and earnings (on relatively stable margins) and at 31 March 2016 had a record high level of work in hand. The historical multiples are for the actual results for the year ended 30 June 2016. As SMEC is an unlisted company no forecast information is available but it is reasonable to assume that based on the positive outlook in its target markets that growth in earnings is expected in the short to medium term (and as a consequence the historical multiples implied by the transaction are relatively high).

Sedgman Limited / CIMIC Group Limited

On 13 January 2016, CIMIC announced an unsolicited unconditional final off-market takeover offer to acquire the 63.01% of shares in Sedgman Limited ("Sedgman") that it did not already own at a price of $1.07 cash per share. As the offer is unconditional, CIMIC is able to acquire shares on market at the offer price and at the date of Sedgman's Target's Statement in response to the offer, CIMIC's interest has increased to 46.44%. Sedgman provides mineral processing and associated infrastructure solutions to the global resources sector. It has expertise across a range of commodities and specialises in EPC having delivered projects for some of the largest mining companies including BHP Billiton, Rio Tinto and Vale. CIMCI is a long standing strategic shareholder of Sedgman.

Since 2012, Sedgman has faced deteriorating market conditions in the resources sector and it has implemented restructuring and downsizing initiatives and commenced the implementation of a refreshed strategic plan. Sedgman is in a strong financial position with net cash. The multiples implied by the transaction are considered low. The independent expert for the transaction concluded that the offer was not fair (i.e. did not reflect the full underlying value of Sedgman) but reasonable (primarily due to CIMIC's shareholding). The independent directors reluctantly recommended acceptance of the offer as CIMIC already exerts practical control of the company and the issues associated with remaining minority shareholders in a controlled listed company.

Coffey International Limited / Tetra Tech, Inc.

On 14 October 2015, Coffey International Limited ("Coffey") announced that it had entered into a bid implementation agreement with Tetra Tech, Inc. ("Tetra Tech") under which Tetra Tech would make an off-market takeover offer for 100% of Coffey at a cash price of $0.425 per share. Coffey provides engineering consulting services internationally to the transport, infrastructure, property infrastructure, international development, oil and gas and mining sectors. Since 2012, Coffey has implemented restructuring and downsizing initiatives in response to tight market conditions. No brokers currently publish research on Coffey and therefore no forecast multiples can be calculated.

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Cardno Limited / Crescent Capital Investments Pty Limited

Cardno Limited ("Cardno") is an infrastructure and environmental services company which provides professional services in the development and improvement of physical and social infrastructure for communities worldwide. On 20 May 2015, Cardno issued a profit downgrade for the year ending 30 June 2015 lowering market expectations by around 15-20% as a consequence of a combination of cyclical (weak mining and oil and gas demand, adverse weather in the United States, A$/US$ volatility), structural (increased competition, lower recovery in infrastructure spending) and timing (slower conversion of backlog and realisation of cost savings) factors. Immediately following the downgrade announcement, Cardno shares fell 25% and Crescent Capital Investments Pty Limited ("Crescent Capital"), a private equity backed entity, acquired an 18.8% relevant interest in the company. Cardno announced the appointment of a new Chief Executive Officer on 27 May 2015 and the commencement of a strategic review.

On 14 September 2015, Crescent Capital announced a proportional takeover offer for 50% of the shares in Cardno that it did not already own (it held a relevant interest of 19.6% at that date). On this basis, it is seeking to acquire an additional 40% of Cardno raising its interest to around 60%. The consideration under the offer was $3.15 cash per share. On 12 October 2015, Cardno announced the results of the strategic review (including $20 million of cost savings to be realised by 2017) and, on 13 October 2015, released its Target's Statement in which it the offer was rejected by the Cardno board as opportunistic and significantly under valuing the company and the independent expert concluded that the offer was neither fair nor reasonable.

Subsequently, Cardno engaged with Crescent Capital and, on 19 October 2015, announced that they had agreed to an increase in the offer to $3.45 per share (albeit still 9% below the bottom end of the independent expert's estimate of full underlying value) and to a board membership transition plan if Crescent Capital obtained an interest of at least 30% under the offer. When the offer closed on 2 November 2015, Crescent Capital's interest was 40.9% and therefore it became entitled to three board seats and to nominate one non-executive director to the eight person board. While Crescent Capital does not have outright control of Cardno, it has acquired substantial influence (if not practical control) under this transaction. The multiples implied by the transaction are relatively high probably reflecting the earnings upon which they are based (i.e. not reflecting any turnaround as a result of implementation of the strategic plan).

Sinclair Knight Merz Holdings Limited / Jacobs Engineering Group Inc.

On 9 September 2013, Jacobs Engineering Group Inc. ("Jacobs") announced that it had entered into a merger implementation agreement with Sinclair Knight Merz Holdings Limited ("SKM") to acquire SKM for approximately $1.3 billion in cash. The purchase price reflected an enterprise value of approximately $1.2 billion plus adjustments for cash, debt and other items. SKM is an employee owned company with capability in strategic consulting, engineering and project delivery. It generates the majority of its revenue (approximately 80%) from Australia although it also has operations in Asia, South America and the United Kingdom. SKM operates across a range of industries including Mining and Metals, Buildings and Infrastructure, Water and Environment and Power and Energy. Mining and Metals and Power and Energy together represent approximately 50% of SKM's revenue. While there is little overlap in the business operations of Jacobs and SKM (in terms of capability or geography), the acquisition is seen as a strategic fit for Jacobs, uniquely positioning it amongst its global peers and adding scale, diversification and growth opportunities to the business.

Unidel Group Pty Limited / AMEC plc

On 30 May 2012, AMEC plc. ("AMEC") acquired Unidel Group Pty Limited ("Unidel") for $27 million with a further $14 million payable over three years subject to achievement of profit targets. Unidel is a Brisbane based consulting, engineering and technical services company focused on the energy, resources and infrastructure sectors. The low end of the multiple range reflects the base consideration while the top end of the range reflects the maximum consideration payable.

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Evans & Peck Group Limited / WorleyParsons Limited

On 11 November 2009, WorleyParsons Limited ("WorleyParsons") announced an off market cash takeover offer for unlisted public company Evans & Peck Group Limited ("Evans & Peck"). The consideration under the offer was $30.00 per share ($87.1 million in aggregate). Evans & Peck provides business advisory services across the transport, power and energy, resources, water and social infrastructure sectors. It specialises in major infrastructure and offers a range of services from business consulting, project strategy and business case development to commercial/contractual support, project delivery and asset management.

GRD Limited / AMEC plc

On 11 June 2009, GRD Limited ("GRD") announced that it had received a conditional proposal from AMEC to acquire all of the shares in GRD for a price of 55 cents per share ($105.8 million) subject to completion of due diligence and further negotiations. On 20 July 2009, GRD announced that it had agreed to recommend the offer from AMEC. GRD is an international engineering and development company. Its operations comprise GRD Minproc, an engineering and project delivery business specialising in the design, procurement and construction of mineral resources and water to resources projects (with also operates a construction and maintenance business in the resources sector) and Global Renewables, a business which develops projects to recover resources from municipal waste. The offer from AMEC attributed little value to the Global Renewables business. The multiples presented exclude the Global Renewables business with enterprise value calculated based on the value range attributed by the independent expert to Global Renewables ($37-63 million). If no value is allowed for Global Renewables, the historical EBITDA and EBIT multiples increase to 7.1 and 8.4 times respectively and the forecast EBITDA and EBIT multiples increase to 10.3 and 12.3 times respectively. Forecast multiples implied by the transaction are higher than historical multiples due to the decline in demand for engineering services as a consequence of the curtailment of capital expenditure by resources companies following the global financial crisis.

Broadspectrum Limited / Ferrovial S.A.

On 7 December 2015, Ferrovial S.A. ("Ferrovial") announced a conditional off-market takeover offer for 100% of the shares in Broadspectrum Limited ("Broadspectrum") for $1.35 cash per share. Broadspectrum (formerly Transfield Services Limited) is a provider of services to the infrastructure, defence, social, property, resources and industrial sectors in Australia, New Zealand, the Americas and the Asia Pacific region. Services provided include logistics and facilities maintenance, operations and maintenance, care and welfare, well servicing, engineering consulting and construction. In response to challenging business conditions and with a new senior management team, Broadspectrum undertook a strategic review during the year ended 30 June 2014 which resulted in a new operating model, a debt reduction strategy, a productively improvement plan and a new opportunity governance and approval process.

At the time of Ferrovial's offer more than 50% of Broadspectrum's revenue was derived from government clients. In particular, Broadspectrum was contracted to the Australian Government to provide welfare and garrison support services for the regional processing centres located in Nauru and Manus Province, Papua New Guinea. The initial term for this contract expires in October 2015 but in August 2015 Broadspectrum was selected as the preferred tenderer to negotiate the new five year contract (with the existing contract extended for four months). The value of the new contact is widely expected to be lower than the initial contract and therefore the outcome of these negotiations is critical to Broadspectrum's financial outlook.

Broadspectrum released its Target's Statement on 21 January 2016 rejecting the offer as opportunistic and significantly undervaluing the company (the independent expert concluding that the offer was not fair and not reasonable). On 8 February 2016 it announced that the Australian Government had extended the existing contract for a further 12 months (and extended the negotiation period for the new contract) and an upgrade in its earnings guidance for the year ending 30 June 2016. Over the next two months Ferrovial extended the offer period and, on 6 April 2016, announced an increase in the offer to $1.50 cash per share and declared it final and free of defeating conditions other than a 50.01% acceptance condition. Nevertheless, the Broadspectrum board maintained its "reject" recommendation.

On 26 April 2016, the Supreme Court of Papua New Guinea ruled that the detention of asylum seekers at the regional processing centre in Manus Province was unconstitutional and, on 27 April 2016, Papua New Guinea's Prime Minister announced that it would be shut down. As a consequence, on 28 April 2016 the Broadspectrum

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board changed its recommendation to "accept" on the basis of the increased uncertainty associated with the contract and the renewal process (and therefore Broadspectrum's earnings) and the certainty of shareholders receiving $1.50 cash per share under the offer. Caution is therefore warranted when considering the forecast multiples implied by Ferrovial's final offer as they are based on forecast earnings estimated prior to the court ruling on the Manus Province regional processing centre.

SKILLED Group Limited / Programmed Maintenance Services Limited

On 24 June 2015, SKILLED announced that it had entered into a scheme implementation agreement with Programmed Maintenance Services Limited ("Programmed") under which Programmed would acquire all of the issued shares in SKILLED for consideration of 0.55 Programmed shares plus $0.25 cash per SKILLED share. If implemented, former SKILLED shareholders will in aggregate hold around 52.45% of the combined entity. Historically, SKILLED has been a provider of labour hire and workforce services. Over time its activities have expanded beyond its traditional "blue collar" labour hire activities to white collar and professional hire as well as personnel recruitment, training services, engineering services and offshore support services in Australia. Programmed provides staffing, maintenance and facility management services in Australia and New Zealand. Combination of the two entities was expected to generate significant synergies. The multiples presented in the table above have been calculated based on the Programmed closing share price on 22 May 2016 ($2.62), being the last price prior to announcement of discussions between the companies. The last Programmed share price on the day immediately prior to the announcement of the transaction (19 June 2015) was 6% higher (at $2.80) and therefore the multiple implied by the transaction on that basis would be higher. The forecast multiples are higher than the historical multiples as SKILLED's earnings are projected to decline in the year ending 30 June 2016.

Thiess Services and Leighton Contractor Services /Acquisition of 50% interest by Apollo Global Management

On 17 December 2014, it was announced that Apollo Global Management LLC ("Apollo") and Leighton would form a 50:50 operations and maintenance services partnership. The joint venture is to be formed by Apollo acquiring a 50% interest in Leighton's Thiess Services and Leighton Contractor Services businesses for $537.5 million. These businesses provide a comprehensive range of operational maintenance, design and construction, remediation, and asset and facilities management services to clients. Earnings details for the businesses were not disclosed, however, based on broker analysis the transaction implies forecast EBITDA multiples of 4-5 times and forecast EBIT multiple of 6-9 times. The joint venture has been named "Ventia".

Valemus Australia Pty Limited / Lend Lease Corporation Limited

On 20 December 2010, Lend Lease Corporation Limited ("Lend Lease") announced the acquisition of Valemus Australia Pty Limited ("Valemus") from Bilfinger Berger AG ("Bilfinger") for $960 million (plus $106.6 million being an amount representing profits from 1 January 2010 to 10 March 2011 not distributed to Bilfinger). Valemus provides services in the engineering, construction, residential and non-residential building and engineering services markets in Australia. It operates through the businesses of Abigroup, Baulderstone and Conneq across a number of sectors including roads and tunnels, water, mining and oil and gas, power, telecommunications and social and institutional building. Bilfinger postponed an initial public offering ("IPO") for Valemus in July 2010 due to market conditions. The multiples presented are based on the pro forma earnings for Valemus for the year ended 31 December 2009 and the year ending 31 December 2010 as set out in the IPO prospectus.

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2 Valuation Evidence from Sharemarket Prices

The markets in which UGL operates are serviced by a number of large firms. The major players include both domestically based suppliers and the local operations of global providers. Grant Samuel's review of comparable companies has been focussed on Australian listed companies providing engineering, construction and maintenance services in Australia.

The sharemarket ratings of the selected listed companies are set out below.

Sharemarket Ratings of Selected Listed Companies

Company	Market Capital-isation[9] ($ millions)	EBITDA Multiple[10] (times)			EBITA Multiple[11] (times)			EBIT Multiple[12] (times)		
		Historical	Forecast Year 1	Forecast Year 2	Historical	Forecast Year 1	Forecast Year 2	Historical	Forecast Year 1	Forecast Year 2
Australia										
CIMIC	9,616	5.0	6.4	6.1	8.2	9.3	8.6	8.2	9.3	8.6
Downer	2,447	4.9	5.3	5.5	8.8	10.4	10.9	9.3	11.1	11.6
WorleyParsons	2,111	7.3	8.1	7.3	8.6	9.7	8.5	9.4	10.6	9.2
Monadelphous	874	6.0	7.4	7.4	7.4	9.2	9.0	7.4	9.2	9.0
Cardno	444	15.7	9.9	8.5	69.4	20.8	14.8	nmf[13]	20.8	14.8
RCR Tomlinson	375	9.1	6.3	5.6	13.3	7.8	6.6	16.1	9.0	7.4

Source: Grant Samuel analysis[8]

The multiples shown above are based on sharemarket prices as at 31 October 2016 and do not reflect a premium for control. All companies have a 30 June year end except for CIMIC which has a 31 December year end.

The data analysed for each company included the most recent annual historical results plus the subsequent two forecast years. The historical earnings for all companies other than CIMIC are the actual results for the year ended 30 June 2016 while for CIMIC the historical earnings are the actual results for the year ended 31 December 2015.

The earnings multiples calculated generally indicate that the market expects limited growth in earnings over the forecast period and, in some cases, earnings decreases as current projects complete and work pipelines/order books decline.

A brief description of each company is set out below:

CIMIC Group Limited

CIMIC is a leading international contractor providing construction, mining, mineral processing, engineering, concessions and operations and maintenance services to the infrastructure, resources, and property markets primarily in the Asia Pacific, the Middle East, North America, Sub-Saharan Africa and South America. CIMIC's largest shareholder with a 72.68% interest is Frankfurt Stock Exchange listed company HOCHTIEF AG, which, in turn, is 71.72% owned by Madrid Stock Exchange listed company Actividades de Construccion y Servicios S.A. In June 2014 a strategic review was undertaken with the objective of putting the company on basis to deliver long term growth in cash backed profits. Phase one of the transformation was delivered in 2014 with the adoption of a new operating model based on four activity based businesses focused on construction, contract mining, public private partnerships (PPPs) and engineering and the divestment of John Holland and the creation of the Ventia partnership with Apollo Global Management. Phase two involved internal streamlining, restructuring, cost reduction and a focus on capital management, such that 2015 was a year of continuing transformation within a continuing challenging trading environment.

9 Market capitalisation based on sharemarket prices as at 31 October 2016.
10 Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA.
11 Represents gross capitalisation divided by EBITA.
12 Represents gross capitalisation divided by EBIT.
13 nmf = not meaningful

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In March 2016, CIMIC acquired the 63.01% of Sedgman, a resource engineering company, that it did not already own via an off-market takeover. Organic growth is a focus in 2016, particularly in the construction and mining businesses. In July 2016, CIMIC released its half year results, reporting an increase in earnings and confirming its guidance for 2016, reflecting the ongoing benefits of its transformation strategy. Despite confirming a flat to increasing NPAT for 2016, brokers are forecasting a decline in EBITDA and EBIT (with the increase in NPAT a result of declining net interest expense).

Downer EDI Limited

Downer provides engineering, construction and asset management services to the transport services, technology and communications services, utilities services, rail and mining sectors, primarily in Australia and New Zealand but also in the Asia-Pacific region, South America and Southern Africa. Downer reported a decline in revenue and earnings in FY16, despite a full year contribution from Tenix, due to reduced activity in the mining sector, weaker margins in its rail and engineering, construction and maintenance divisions, capped R&D grant income and costs associated with an unsuccessful tender for Canberra's planned light rail system. The FY16 result was in line with guidance provided earlier in the year, after a downgrade from earlier expectations was announced to take into account unsuccessful bid costs. While Downer expects to face continued pressure in its resources based businesses, it is in the process of repositioning itself to service increased investment and outsourcing in roads and rail, public transport, utilities, defence and communications. In August 2016, Downer lowered its profit forecast for FY17 after failing to win a rail contract worth $2.3 billion.

Downer's lower EBITDA multiples reflect its high depreciation charges. While capital expenditure was 34% of EBITDA in FY16, it was only approximately 75% of depreciation.

WorleyParsons Limited

WorleyParsons is an Australian based global provider of professional services to the resources and energy sectors and complex process industries. Representing around 70% of revenue and earnings, hydrocarbons is its major area of expertise with WorleyParsons providing services across the upstream, mid-stream and downstream sectors including early conceptual studies to the executive of major projects as well as asset management and enhancement programs. Canada, Australia and the United States are WorleyParson's largest markets, however, it has operations around the world including in the key growth regions of Asia, the Middle East, North Africa and India. WorleyParsons announced a decline in earnings in FY16, despite making progress on its priorities including reducing internal costs, improving customer productivity, optimising its portfolio and strengthening its balance sheet. WorleyParsons expects trading conditions to remain challenging and this is reflected in the increase in its FY17 forecast trading multiples.

Monadelphous Group Limited

Monadelphous Group Limited ("Monadelphous") is an engineering group that provides construction, maintenance and industrial services to the resources, energy and infrastructure sectors in Australia and Papua New Guinea. It has two operating divisions – Engineering which provides large scale multidisciplinary project management and construction services, and Maintenance Industrial Services which specialises in the planning, management and execution of mechanical and electrical maintenance services, shutdowns, fixed plant maintenance services and sustaining capital works. Monadelphous reported a decline in earnings in FY16, reflecting lower demand for construction work combined with delays to some existing project work and higher levels of activity in maintenance offset by reduced costs and pricing.

The higher FY17 and flat FY18 forecast multiples (relative to historical FY16 multiples) for Monadelphous reflect its challenging outlook. Resources and energy market conditions are expected to remain soft over the medium term, although this is expected to be offset in part by a positive outlook for maintenance and industrial services as new operations come on stream.

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Cardno Limited

Cardno is an infrastructure and environmental services company which provides professional services in the development and improvement of physical and social infrastructure for communities worldwide. The company is diversified by sector and geography, historically generating over 50% of revenue in the United States. Poor performance in FY15 led Crescent Capital (which had acquired 19.6% interest following the May 2015 profit downgrade announcement) to make a proportional takeover offer in September 2015. Although initially rejected by the board, the offer was increased and Crescent Capital increased its shareholding to 40.9% (refer to the discussion of this transaction above). In October 2015, Cardno completed a three month strategic review and identification of strategic priorities designed to improve the focus and profitability of the business and better position it for growth, as a result of which it sold part of its United States operations. In November 2015, Cardno provided a market update and guidance for FY16 which was below expectations and announced a heavily discounted capital raising (at $1.00 per share) to strengthen its balance sheet, resulting in the share price almost halving. Despite board and management renewal over the following months, in May 2016, Cardno announced a reduction in FY16 guidance and that there would be an impairment charge recorded reflecting performance issues and the impacts of the sale of the United States operations. A further, heavily discounted capital raising (at $0.40 per share) followed in June 2016, leading to a further substantial fall in the share price.

Cardno reported a substantial decline in EBITDA and margin in FY16. The poor FY16 performance reflected issues in both its Asia-Pacific and Americas businesses. The Asia-Pacific business continued to face headwinds as the Australian economy reset away from a resources led investment boom to a public infrastructure led recovery, which has been slower than expected in appearing. The poor performance of the Americas business was in part due to pressures from oil and gas price declines and issues in the Mining and Latin America divisions. Cardno announced the resignation of its Chief Executive Officer in August 2016, the same day as it announced its FY16 results. Subsequent to year end, Cardno has sold a further business (XP Solutions) and negotiated covenant relief with its lenders to allow flexibility to allow for agreed restructure charges during FY17. Cardno has also announced that it expects FY17 EBITDA prior to one off costs to be of a similar order of magnitude to the reported EBITDA for continuing operations in FY16.

These events have had a material negative impact on Cardno's share price. While the share price has recovered marginally over recent months, the high historical and forecast multiples for Cardno relative to its peers reflect its poor performance and concerns around the pace of any turnaround given current market conditions and the lack of a Chief Executive Officer.

RCR Tomlinson Ltd

RCR Tomlinson Limited ("RCR") is a multi-disciplinary engineering company that provides integrated engineering solutions to the infrastructure (rail and transport, renewables (solar and wind), HVAC (heating, ventilation and air-conditioning) and communications), resources (structural, mechanical and piping ("SMP") and electrical and instrumentation ("E&I") construction, oil and gas, mining technology) and energy (power generation, upgrades and maintenance, service specialist) sectors in Australia, New Zealand and Asia. Its strategy is to diversify its business using innovation and technology to provide cost competitive solutions for clients and to target the growing areas the market in rail, transport and renewable energy. In April 2016, RCR announced a major cost out and strategic reorganisation in response to continued pressure on commodity prices in sectors in which it operates and general slowness in capital spend in private and government projects. RCR closed 16 unprofitable businesses and reorganised its business to reduce its exposure to coal mining services (while remaining committed to key resources where it has a leading position with customers), reduced its exposure to the fabrication industry and reduced its fixed overhead. As a result, RCR's historical multiples are not meaningful. As at 30 June 2016, RCR had an order book of $1.0 billion.

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Corporate directory

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Non-executive Chairman

Ross Taylor
Chief Executive Officer

Guy M Cowan
Non-executive Director

Jane Harvey
Non-executive Director

Robert Kaye SC
Non-executive Director

Chief Financial Officer
Ray Church

Company Secretaries

Lyn Nikolopoulos

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