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UXC Limited
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MARKET ANNOUNCEMENT

Managing Directors' Review of Operations and additional appendices to Investor Presentation

Attached is UXC's Managing Directors' Review of Operations as set out in the financial statements for the half year ended 31 December 2014. This includes detailed information on the company's financial position, strategy and outlook.

Also attached are two new appendices to UXC's Investor Presentation:

- a segment profitability slide, and
- a cash flow slide.

The full Investor Presentation will be re-lodged with these two slides included.

For more information please contact:

Mr Cris Nicolli Managing Director UXC Limited (613) 9224 5777	Ms Iona MacPherson Chief Financial Officer and Company Secretary UXC Limited (613) 9224 5777	Toll free shareholder information line: 1800 092 092 www.uxc.com.au

ABOUT UXC LIMITED

UXC Limited is an S&P/ASX 300 listed Australian business solutions company, and the largest Australian owned ICT consultancy firm. UXC services medium to large entities in the private and public sectors across Australia and New Zealand and has operations in Asia and the United States.

UXC provides a range of unique, unmatched and formidable ICT Solutions in Consulting, Business Applications and Infrastructure that support our customers to plan & design, implement & enhance, and operate & manage their ICT requirements.

UXC strives to create simplicity and meaning in a complex world through the power of people and technology, by being the leading Tier 1 Australian IT Services and Solutions Company, delivering value, innovation and responsive business outcomes with excellent people.

This announcement contains certain forward-looking statements with respect to the financial condition, results of operations and business of UXC Limited ("UXC") and certain plans and objectives of the management of UXC. Forward-looking statements can generally be identified by the use of words such as 'project', 'believe', 'foresee', 'plan', 'expect', 'aim', 'potential', 'goal', 'target', 'intend', 'anticipate', 'believe', 'estimate', 'may', 'could', 'should', 'will' or similar expressions. All such forward looking statements involve known and unknown risks, significant uncertainties, assumptions, contingencies and other factors, many of which are outside the control of UXC, which may cause the actual results or performance of UXC to be materially different from any future results or performance expressed or implied by such forward looking statements. Such forward-looking statements speak only as of the date of this announcement. Factors that could cause actual results or performance to differ materially include without limitation the following: risks and uncertainties associated with the Australian and global economic environment and capital market conditions, fluctuations in foreign currency exchange and interest rates, competition, UXC's relationships with, and the financial condition of, its suppliers and customers, or legislative changes, or regulatory changes or other changes in the laws which affect UXC's business. The foregoing list of important factors is not exhaustive. There can be no assurance that actual outcomes will not differ materially from these statements. Readers should not place undue reliance on forward looking statements. Except as required by law and ASX Listing Rules, UXC undertakes no obligation to update publicly or otherwise revise any forward looking statement as a result of new information, future events or other factors.

Managing Director's Review of Operations

(Please note comparisons are to 1H14 unless otherwise stated.)

UXC has delivered a significantly improved result for the first half of the 2015 financial year.

Net Profit after Tax (NPAT) improved 81% to $7.1m, NPAT from continuing operations improved 94% to $7.6m, Earnings before Interest and Tax (EBIT) improved 64%, Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) improved 47% and revenue grew 9% to $322.2m, a first half record. Of key importance:

- strong results verify that UXC's strategy to build scale in selected high growth markets is beginning to deliver the anticipated returns for shareholders;
- the strategic shift away from lower margin product and licence revenues meant that overall organic revenue declined marginally;
- the change in business mix to high quality services with annuity revenue is improving UXC's customer relevancy, margin potential and quality of earnings; and
- the clear strategy and disciplined execution is driving cash flows, debt reduction and improved returns. Net debt is sitting at a conservative balance of $20.5m (1H14: $51.9m).

Revenue and earnings growth in this half came primarily from the acquisitions UXC made in the 2014 financial year. UXC has shifted its focus to providing clients with high quality managed services with annuity revenue streams and is improving customer relevancy, mix of business, margin potential and quality of earnings.

UXC's strategy of client focus, investment in the applications segment and in new technologies and markets is well founded.

Central to our success has been the focus on maximising the value we can add to our major clients. The success in this initiative has resulted in a 9% increase in revenues from our top 50 clients in the first six months of the 2015 financial year.

Additionally, to improve earnings quality, we have continued to reshape our mix of business by increasing the provision of application based services and annuity revenues, whilst, as noted above, reducing the focus on the product and licence revenues which have lower margins and do not deliver as much long-term value to our clients.

The combined performance of our FY14 acquisitions are within plan with our North American business exceeding targets. UXC's initial move into the North American market was in response to a client's request to undertake a major project there. UXC's success in this regard led to additional work and the opportunity to invest in this market. This was done in two phases, with the initial Cole Systems investment providing confidence to add the assets of Tectura to our business. The successful integration of Tectura, along with the calibre and number of new clients choosing UXC, means we have established a strong presence in this important Microsoft market to underpin our ambition to build revenue from our North American business to exceed $100m.

The strong positioning of our existing core relationships in the Applications market (Microsoft, Oracle, SAP and ServiceNow) is now being augmented by new strategies and relationships with emerging technologies that position UXC well for the future. This is an important element of our strategy. Clients are looking for innovative solutions to assist them drive down costs, improve efficiencies and help them transform their delivery of service and business value. Our position as a key advisor in core business areas, together with our ability to introduce these emerging technologies with partners, allows us to work closely with clients on new and value add projects.

A key element of the improvement in our operational performance lies in our project delivery. We have further refined the discipline and processes on all projects to achieve improved delivery quality and margins. Additionally, the Audit & Risk Committee is actively involved in driving governance on project reviews and risk oversight to support the Senior Management Team.

In addition to the initiatives undertaken last year, we continue to drive for further improvements in gross margin and overhead reduction. The consolidation of office facilities is an ongoing process with Melbourne completed in late 2013 and Sydney planned for May 2015. While we will see some cost savings from this consolidation, the real benefit is the integration of employees into a single office allowing for greater employee collaboration.

UXC's finance charges increased by $0.5m compared to 1H14 due to higher borrowings and increased debt facilities associated with recent acquisitions.

The reduction in effective tax rate to 17.7% is caused by a one-off $1.1m tax benefit relating to the North American business. UXC's effective tax rate is expected to return to previous levels in 2H15.

UXC's half year result has been impacted by a one-off charge of $0.5m against discontinued operations. This is due to a liquidator preference payment claim relating to the previously owned Field Solutions Group. No further charges will occur as all warranty periods have now passed and there may be some chance of a part recovery of this amount in future periods.

Subject to final court approvals, all litigation relating to the Victorian bushfires is now resolved. All matters have been negotiated between the parties with no further financial or cash impact on UXC.

SEGMENT REVIEW

Applications

One of the major UXC differentiators is our market-leading Applications business. This segment provides over 50% of UXC revenue and around 66% of the continuing operations business segment EBITDA.

The Applications segment is UXC's core growth driver and remains its major competitive differentiator in the market as the company offers its clients choice in the Enterprise Resource Planning market and service management segments. These segments are characterised by larger value and longer duration projects and as such provides some stability against short term market variances. The ability to offer the choice of leading global software vendors while maintaining best-in-class capabilities provides quality revenue streams as well as a strong competitive advantage.

Oracle

We are Asia Pacific leaders in Oracle and one of the global leaders in the JD Edwards market which is generating strong demand in our market. This reputation has been enhanced by UXC Red Rock being the only Australia & New Zealand Oracle Partner to win the prestigious JD Edwards Partner Excellence Award presented in Denver in February 2015.

UXC Red Rock has continued to perform well and has recently won a number of significant projects. These include Fletcher Building, Transpower New Zealand, Public Transport Victoria, Ravensdown and the University of Canterbury with others to be announced. These contracts provide a solid pipeline of work to be delivered over the next 18 months and opportunities to offer other UXC services to these clients.

Microsoft Dynamics

UXC is one of the global leaders in the Microsoft Dynamics market and we continue to see this part of the business as having significant revenue and earnings potential. UXC Eclipse had a very strong half with a solid contribution from Australia & New Zealand and growth in the North American market. This, coupled with the strong market positioning of Microsoft, especially as it ramps up investment in Microsoft Dynamics AX and Cloud-based Azure solutions, provides UXC with exciting opportunities in the coming years. Combined with the successful integration of Tectura, UXC is being asked to take on larger and more complex projects in this Microsoft space.

Investments have been made to further strengthen our retail industry position in the Microsoft market. Our 2012 Cole Systems acquisition in New York established a solid footprint in the retail sector and diversified our North American industry base which was previously dependent on resources and mining. Having built on this retail expertise, especially with our recent acquisition of the Tectura business, we are now a leading partner for Microsoft in this industry vertical with a number of high profile client wins such as Jeanswest in the Asia Pacific region and The Jean Coutu Group in North America.

SAP

Our SAP business, UXC Oxygen is seen as the leading independent SAP integrator in Australia & New Zealand. Our reputation for service delivery excellence and our alignment to key industry and functional expertise continues to win new clients. As SAP continues to build and acquire further SaaS assets and capabilities such as hybris, Concur and Ariba, UXC Oxygen will benefit from being able to offer these additional products and services to clients. The UXC Oxygen reputation continues to be enhanced with the successful delivery of a number of large SAP projects during 1H15.

ServiceNow

We are the Asia Pacific leaders in ServiceNow. This platform changes the way clients deliver service management. As the only Master Partner in Australia & New Zealand, we are engaged with a number of blue chip clients in helping to transform how they deliver service and value within their businesses.

Consulting

The Consulting segment, which includes our advisory and professional solutions business, has had a satisfactory half with total revenue growth of 12.7% which includes the acquisition of the Saltbush Group in October. Despite the well documented variability in this sector, especially in Victoria, our largest market, UXC business margins remained comparable with previous reporting periods. These Consulting services enable cross-selling leverage for the Application and Infrastructure businesses.

Infrastructure

The Infrastructure segment has delivered significantly better profits in 1H15 when compared to 1H14. We have embarked on a strategy of increasing our value added services, especially managed services and support solutions, while reducing the focus on lower margin product.

The strategy is progressing well with encouraging results. This is reflected in the increase of annuity managed services revenue of 9% compared to 1H14, while product revenue was down in line with our plan.

Our annuity managed services business continues to grow and with further investments focused on application management and lower cost enterprise delivery models, we expect to further grow this business profit capability.

UXC BUSINESS STRATEGY

A key component of the UXC strategy is to identify and invest in selected segments of the IT market with a view to achieving leadership and competitive positioning, together with relevance to the vendors we represent. By focusing on the way markets and clients want to interact and purchase, UXC has the opportunity to align its “go to market” offering with those customer preferences, while providing strong domain and functional delivery outcomes and process capabilities.

For some years, UXC has been focused on building and executing a strategy based on strong client relationships coupled with market leadership through our applications, infrastructure and consulting services capabilities. UXC recognised that its success is predicated on providing its clients with innovative solutions. Our ability to anticipate emerging technologies and find the right partners and solutions for our clients has generated additional revenues from new and existing clients which will strengthen our growth in the coming years.

Our full lifecycle of services from plan, design, implement through to manage and support provides clients with a range of systems and solution integration options. This supports our goal of developing longer term client relationships with annuity business based on key solutions and delivery excellence. Our track record of retaining and winning new clients, many based on client references, provides an increasingly solid foundation for our business.

With the accelerating rate of technology and its impact on business, UXC has a vision to create certainty in a world of complexity and disruption through the power of people and technology. With the inclusion of solutions based on new and emerging technologies, we have advanced this vision over the past year. Examples of these emerging technologies being adopted in the market include analytics, big data, digital, mobility, service management, IT cost management, customer experience, collaboration and others.

As emerging technologies and solutions enter the market, we are at the forefront of selectively bringing these solutions to clients. These emerging technologies and solutions provide entry points for the disruption of legacy and inflexible costly systems that no longer support required business models. We will continue to invest in and monetise emerging solutions that meet our investment criteria.

The strategic plan is to continue to invest in selected industries. Current industry sectors and the percentage contribution of UXC’s revenue include: Health (17%), Energy and Utilities (9%), Government (20%) and Consumer and Capital Goods and Services (24%). Given the opportunity in the Microsoft Dynamics space noted above, retail will be a key focus for the future. This diversity of industry coverage protects UXC from any sector specific downturn.

We will continue to look for acquisition opportunities that provide strategic benefit plus accretive earnings capability to the company. Our recent investments have provided UXC with increased confidence, including investing in the North American market. Any opportunity will be evaluated in the context of our strict and disciplined criteria and our working capital and balance sheet capacity.

ACQUISITIONS

Our focus in the first half was to fully integrate the businesses acquired in FY14. The combined performance of the acquired businesses has been within expectations. Importantly, the acquisitions have provided us with new clients and allowed us to increase our service offerings to UXC's existing clients. The recently completed acquisitions provide capacity and capability for emerging segments in the market that will drive a number of our growth initiatives and increase our revenue and earnings base.

Saltbush

The Saltbush Group, acquired in October 2014, is one of the leading information and cyber security professional services firms in its sector. Within this sector, Saltbush has a strong reputation for customer service and quality, especially in the areas of Assurance, Consulting, Development, Solutions and Training.

Saltbush has revenue of approximately $12m and 66 staff and has already exceeded management expectations with even stronger growth anticipated in the second half.

CASH FLOW AND CAPITAL MANAGEMENT

UXC continues to work on improving its working capital management. Reaffirming our capacity to generate strong cash flows from our business, UXC's net debt was $20.5m at 31 December 2014 compared to $51.9m at 31 December 2013, representing an 8% gearing; an improvement from 20% in 1H14.

As in prior years, UXC's cash flows are skewed to the second half of the year due to seasonal factors impacting the timing of receipts and related disbursements, the timing of employee incentives and the final dividend payment. The impact of the larger projects, with invoicing and payments based on project milestones, can also affect UXC's cash collection cycle.

UXC is confident that the company's track record of converting the majority of EBITDA to cash over the course of the full financial year will continue.

Our Return on Equity increased to 6.4%, an improvement of 68%.

The interim dividend of 1.7 cents per share represents a 79% payout ratio based on 1H15 NPAT. The increased payout is recognition of the confidence the Board and Senior Management have in UXC's future and our desire to reward shareholders.

BUSINESS ENVIRONMENT AND OUTLOOK

We are encouraged by the first half performance and remain confident in achieving the second half targets while recognising the historical strong weighting of earnings to the second half that reflects the nature of the business and market.

This confidence is based on having 53% of our second half FY15 revenue already confirmed through annuity contracts and the contracted backlog of orders and we are also encouraged by the number of larger opportunities we are hopeful of winning in Q315.

We will continue to leverage the recent acquisitions to enhance our product and services offerings. Further gains are also expected in North America based on UXC's growing confidence in this market. Other key priorities for the second half include the conversion of new business opportunities; disciplined delivery of the back log of orders; and continuing vigilance in operational management, particularly around utilisation and cost control.

While we will remain focused on improving earnings, investments are required to build UXC into a stronger, leaner and more competitive organisation for the future.

We need to continue to attend to the core margin drivers of managing costs and improving utilisation. Over time, we will improve the quality of earnings by changing the business mix away from lower margin products and licences and focusing on services, particularly those that provide greater annuity revenues and greater value to clients. We have started effecting this change and will continue with our increased focus on our larger clients.

The value of our annuity base now represents 29% of our revenue. Our strong customer relationships, new project wins, the impact of our acquisitions and our back log of business will all have a positive impact on UXC's full year earnings.

We remain confident in our ability to grow the profitability of UXC. While market conditions remain subdued and variable, we still see the ability to forecast profit growth in FY15 over the previous corresponding period.

In summary, the strong result verifies UXC's strategy to build scale in selected higher growth markets which is beginning to deliver the anticipated returns for shareholders. We have made good progress in changing the business mix to higher quality services, building annuity revenues that are improving our customer relevancy and quality of earnings.

We believe our strategic approach and plan is solid, while being aware of the need to focus on effective execution and exercising caution with our investments. Our goal is to continue to improve sustainable earnings growth into the future while continuing to invest to achieve our medium term strategic goals.

ACKNOWLEDGEMENTS

Our valued employees are central to impressing our clients and delivering our plan. I would like to take the opportunity to thank all of them for their exceptional contribution to the business, their loyalty, their confidence with humility, their outstanding service to our clients and making a difference. I would like to take this opportunity to thank them, my executive team and the Board for their support.

I wish to thank our clients and again highlight how critically important they have been in helping UXC continue to be recognised as a leader in the market.

We have positioned UXC well for the “now” and for the future. UXC has a strong solution and business platform and with our continuing focus on the client and the investment in our people, I am confident UXC can reach new highs and achieve our full potential.

Major cash flow items

(1HFY15 unaudited) MARGINS BY SEGMENT	31 DEC 14 $000	31 DEC 13 $000
Opening cash	**19,724**	34,343
Payments for:		
Income tax	**(5,172)**	(5,052)
Acquired business (net)	**(3,227)**	(40,555)
Capex and other intangibles	**(3,676)**	(5,050)
Dividends	**(8,364)**	(10,373)
Other (net cash flow from ops)	**2,898**	(16,915)
Proceeds from:		
Borrowings (net)	**15,340**	60,283
Other	**1,238**	539
CLOSING CASH	**18,761**	17,220

Cash Flow affected by seasonal factors consistent with UXC history

- Significant disbursements made in the September quarter relating to employee bonuses and incentives
- Improved working capital - debtor days from 84 to 70
- Higher earnings converted successfully to cash
- Improved customer contract terms
- Cash flow is expected to generally be equivalent to EBITDA for FY15, consistent with prior years.
- Payments for acquired business - $2.6m for 1H15; $0.6m - FY13 and FY14 acquisition earnouts
- Capex includes $2.1m ($3.1m in 1H14) of leasehold improvements for consolidation of city offices

Outlook
Segment Margins

(1HFY15 unaudited) MARGINS BY SEGMENT	1HFY13	1HFY14*	1HFY15
Consulting	8.0%	7.7%	7.9%
Applications	9.1%	8.5%	8.4%
Infrastructure	2.0%	-0.1%	3.1%

(* as per pg 19 / note 3)

UXC